Supreme Court, U.S.
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No. 97-

IN THE

Supreme Court of the United States

OCTOBER TERM, 1997

MARLBORO FOOTWORKS, LTD., LAURENCE D. KOPLAN, STEVEN GOLDBERG,

Petitioners

v.

AEROGROUP INTERNATIONAL, INC.,

Respondent

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

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PETITION FOR A WRIT OF CERTIORARI

Charles R. Hoffmann
(Counsel of Record)
A. Thomas Kammer
Anthony E. Bennett
Hoffmann & Baron, LLP.
350 Jericho Turnpike
Jericho, New York 11753
(516) 822-3550
Attorneys for Petitioners

126pp

QUESTIONS PRESENTED FOR REVIEW

1. Do the trademark laws of the United States apply extraterritorially when no trademark type harm such as likelihood of confusion or damage to a trademark holder's reputation or goodwill occur in the United States?

2. Does a claim arise under the Lanham Act where it has been explicitly found that there has been no substantial impact on U.S. commerce resulting from the marketing and sale of the accused products outside the United States?

3. Do Petitioners' activities trigger the extraterritorial application of the Lanham act under controlling Supreme Court precedent set forth in *Steele v. Bulova Watch Co.*, 344 U.S. 280 (1952)?

4. Is citizenship the most important factor in determining whether to apply the Lanham Act extraterritorially?

LIST OF PARTIES

All parties appear in the caption of the case. Petitioner, Marlboro Footworks Ltd., has no parent or subsidiaries.

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CITATIONS OF THE OFFICIAL AND UNOFFICIAL REPORTS

The citation for the Federal Circuit's decision is *Aerogroup Int'l v. Marlboro Footworks Ltd.*,1998 U.S. App. LEXIS 7733 (Fed. Cir. 1998).

The citation for the District Court opinion is *Aerogroup Int'l v. Marlboro Footworks Ltd.*, 955 F. Supp. 220 (S.D.N.Y. 1997).

STATEMENT OF BASIS FOR JURISDICTION IN THIS COURT

The judgment sought to be reviewed was entered on April 13, 1998.

A petition for rehearing was denied and a suggestion for rehearing in banc was declined on May 20, 1998.

The statutory provision believed to confer on this Court jurisdiction to review on a writ of certiorari the judgment in question is 28 U.S.C. §1254 (1) (1994).

THE STATUTE INVOLVED IN THE CASE

15 U.S.C. § 1125 False designations of origin, false description, and dilution forbidden

(a) Civil action

(1) Any person who, on or in connection with any goods or services, or any container for goods, uses in commerce any word, term, name, symbol, or device, or any combination thereof, or any false designation of origin, false or misleading description of fact, or false or misleading representation of fact, which--

> (A) is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection, or association of such person with another person, or as to the origin, sponsorship, or approval of his or her goods, services, or commercial activities by another person, or
>
> (B) in commercial advertising or promotion, misrepresents the nature, characteristics, qualities, or geographic origin of his or her or another person's goods, services, or commercial activities,

shall be liable in a civil action by any person who believes that he or she is or is likely to be damaged by such act.

15 U.S.C. § 1125 (1994).

I. STATEMENT OF THE CASE

A. INTRODUCTION

Review of a judgment of the United States Court of Appeals for the Federal Circuit is sought. The basis for federal jurisdiction in the court of first instance is 28 U.S.C. §1295(a)(1) (1994) and 28 U.S.C. §1338(a) (1994). This action (filed in 1996) concerns, *inter alia*, alleged infringement of various trademarks and trade dress rights under federal and state trademark laws.

The Federal Circuit's interpretation of Second Circuit law in the case at bar represents a new low water mark in the Second Circuit, and perhaps in any circuit, for the application of U.S. trademark law beyond national borders to activities occurring in a foreign country. In the forty-five years since this Court, in *Steele v. Bulova Watch Co.*, 344 U.S. 280 (1952), determined that the Lanham Act could be used by the courts to enjoin activities occurring abroad, the various circuits have struggled with the issue of when to extend the reach of the statute to foreign activities. This has led to inconsistent decisions and uncertainty in the state of the law.

Trademark rights have long been recognized as national in scope. Indeed, the trademark laws of many nations are substantially different from each other. *Bulova*, however, has been construed to permit courts in this country to police the world under the Lanham Act whenever the defendant is a U.S. citizen. In spite of the longstanding presumption against applying U.S. laws extraterritorially, the teachings of *Bulova*, and the very purpose of the Lanham Act to protect U.S. as opposed to foreign consumers, the courts have strained to hold U.S. citizens accountable for activities which have almost no impact on U.S. consumers or U.S. commerce.

The present case evinces a continuing trend away from the fundamental underpinnings of this Court's decision in *Bulova*, and substantially eviscerates the presumption against the foreign application of U.S. law. Second Circuit law has now been interpreted as requiring application of U.S. trademark law where the accused products were made in China and shipped directly to Canadian retailers, were marketed and sold only to Canadian consumers in Canada, and where the only accused product to cross the border into the United States was purchased on behalf of the Respondent's attorneys! Moreover, the Respondent has instituted a suit in Canada asserting Canadian trademark law against the very same accused products to which U.S. law was applied in the case at bar. There is clearly a great need for this Court to revisit the issues relating to the extraterritorial application of the Lanham Act, and to provide the guidance necessary for the fair and consistent administration of justice in all the circuits.

B. BACKGROUND

1. Petitioners' Footwear Business

Petitioners, Marlboro Footworks, Ltd., Steven Goldberg and Laurence Koplan ("Marlboro"), perform the function of a "buying agent" which acts on behalf of mass merchants and certain wholesalers in the United States and Canada. In performing such duties, they arrange for the manufacture of footwear according to customer specifications. Marlboro provides its buying agent services on what is termed a "first cost" basis where its customer opens a letter of credit (or provides a wire transfer) as a form of payment to an overseas factory which manufactures the specified footwear. Marlboro is compensated in the form of a commission percentage which is calculated against the factory cost on a per pair basis, i.e. the

cost from the factory times the pairage times the commission percentage. Marlboro does not carry an inventory to sell to various retail companies. Marlboro's customers enter into purchase agreements with the factories which manufacture their shoes. The shoes are shipped directly from the factories to Marlboro's customers.

The styles or designs offered by Marlboro to its customers are design interpretations which sometimes resemble styles of shoes sold in the United States, Canada, or the European communities. Creating interpretations or "knock-offs" of other manufacturers' shoes is an established industry custom practiced by many companies, including the Respondent, Aerogroup. The brand names and trade dress (if any) applied to the footwear and packaging are owned by Marlboro's customers or, in some cases by Marlboro itself. Marlboro Footworks, Ltd. has operated in the above manner since its founding in 1987.

2. Petitioners' Canadian Sales

In accordance with standard practice, footwear ordered through Marlboro by Canadian retailers is shipped directly from an overseas factory to the Canadian retailer, which in turn directly pays the factory. The Canadian retailer assumes the risk of any shoes that are not to specification. The shoes are sold to Canadian citizens in Canada by the Canadian retailers. No such shoes have been found to enter the United States for sale to American consumers.

The total amount of footwear which the District Court found to be infringing if sold in the U.S. is approximately 66,200 pairs. The Marlboro defendants received approximately $42,800 in commissions from these shoes. Nearly all of these shoes were purchased by a Canadian footwear retailer, Bata

Industries, Ltd. ("Bata"). All of these shoes bore the mark AIR SUPPLY.

3. Aerogroup's Footwear

Respondent, Aerogroup International, Inc. ("Aerogroup") is a footwear company having a "branded" division which sells shoes to independent retailers, specialty stores and department stores carrying the stylized trademark AEROSOLES. Aerogroup also has a large "unbranded" division which sells shoes on a "first cost" basis to mass merchants in the United States and Canada. Such shoes usually bear its customers' trademarks. In Canada, Aerogroup acts as a purchasing agent for AEROSOLES footwear, which is sold in Canada through an exclusive distributor, Indeka. All the Aerogroup footwear sold to and by Indeka is branded AEROSOLES. Indeka places orders with Aerogroup which, in turn, arranges with overseas factories, typically in China, for the production of the shoes. The footwear is then shipped directly from the manufacturer to Canada for distribution by Indeka to Canadian retailers. Indeka pays the factories directly through a letter of credit and pays Aerogroup a commission on a "first cost" basis.

Respondent's AEROSOLES shoes sold in Canada are not directly competitive with the AIR SUPPLY footwear obtained by Bata through Marlboro's services. Footwear sold through Indeka in Canada is branded AEROSOLES. Such shoes are considerably more expensive than the footwear sold under the mark AIR SUPPLY. Indeed, a Canadian retailer of AEROSOLES shoes testified during trial that AEROSOLES shoes cost approximately twice as much as AIR SUPPLY shoes. Indeka's national sales manager stated that the price of

AEROSOLES was 50 to 100% higher than corresponding AIR SUPPLY shoes.

Bata had previously sold AEROSOLES shoes and decided to cancel orders with Indeka in favor of footwear purchased through Marlboro. The very reason Bata decided to buy shoes through Marlboro, instead of AEROSOLES shoes from Indeka, was due to Indeka's inability or unwillingness to offer footwear at prices that would meet the target prices set by Bata. Bata management had decided that the high cost of AEROSOLES shoes and the resulting high retail prices would not be in keeping with its overall marketing plan.

With regard to the mark AIR SUPPLY, the Canadian rights in the mark are owned by Bata. Bata filed a trademark application with the Registrar of Trademarks in Canada for the word mark AIR SUPPLY on October 25, 1995. This application is currently pending. A public notice of application was published for opposition requiring any one objecting to the trademark to file a statement of opposition within sixty days from the publication. Neither Aerogroup, nor their Canadian agent, Indeka, filed an opposition during this period, which expired in June, 1996. Furthermore, Bata has never advertised its AIR SUPPLY footwear in the U.S. and has not promoted the shoes anywhere through the mass media.

4. Decision of the District Court

Following a Federal Rule 65(a)(2) consolidated hearing with trial on the merits involving the trademark issues, Judge Cote of the Southern District of New York entered an opinion dismissing most of the allegations of infringement. Liability was found on certain goods having a particular trade dress

which were sold in the U.S. and Canada.[1] An injunction was issued with respect to the U.S.-sold goods and a motions were filed on the issue of applicability of the Lanham Act to goods sold only in Canada. Although the effect on U.S. commerce was found to be "equivocal" and the Respondent failed to demonstrate that there was no conflict with foreign law, the District Court determined that the sales of goods in Canada could be enjoined under the Lanham Act. *Aerogroup Int'l v. Marlboro Footworks Ltd.*, 955 F. Supp. 220 (S.D.N.Y. 1997).[2] This decision was based primarily on the fact that the Petitioners are U.S. citizens. Indeed, the court stated that

> "the citizenship of the defendant is the most significant factor in determining whether to apply the Lanham Act extraterritorially to a defendant's foreign activities."

Id. at 227.

In contrast, the District Court dismissed the claims against co-defendant Bata Industries, finding that the Lanham Act did not extend to the Canadian corporation's Canadian activities even though the subject matter of the suit, i.e., the accused footwear, was essentially the same as for Marlboro. *Id.* at 231. With respect to the accused shoes, the court stated "I cannot find, therefore, that Bata's sales have had a substantial effect on United States commerce." *Id.*

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[1]The District Court opinion on issues of trademark liability is set forth in the Appendix pages 43a to 88a.

[2]The District Court opinion on extraterritorial application of the Lanham Act is set forth in the Appendix pages 15a to 42a.

5. Decision of The Court of Appeals For The Federal Circuit

Aerogroup appealed on nearly all issues of liability and the cancellation of Federal and State trademark registrations[3], and Petitioners cross-appealed the District Court's ruling of liability found under the Lanham Act with respect to the sale of footwear in Canada. The District Court's rulings were affirmed on April 13, 1998 by the Court of Appeals for the Federal Circuit. *Aerogroup Int'l v. Marlboro Footworks Ltd.*,1998 U.S. App. LEXIS 7733 (Fed. Cir. 1998). [4] However, Circuit Judge Gajarsa dissented on the affirmance of the decision regarding extraterritorial application of the Lanham Act to activities in Canada. Judge Gajarsa found no substantial effect on U.S. commerce arising from Marlboro's activities. *Aerogroup*, 1998 U.S. App. LEXIS 7733 at *16 . Moreover, he noted the unexplained disparate treatment between Bata and Marlboro and the potential conflict with Canadian law, which continues to this day. *Id.* at 12. The mandate from the Federal Circuit issued on June 3, 1998.

II. ARGUMENT FOR ALLOWANCE OF THE WRIT

A divided Supreme Court in *Steele v. Bulova Watch Co.*, 344 U.S. 280 (1952), construed the Lanham Act as having extraterritorial effect under certain circumstances. The Court

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[3] *Aerogroup International, Inc. v. Marlboro Footworks, Ltd.*, 977 F. Supp. 264 (S.D.N.Y. 1997). (District Court decision in case at bar canceling Aerogroup's trademark registrations).

[4] The Federal Circuit's majority opinion is set forth in the Appendix pages 1a to 7a. The dissenting opinion is set forth in the Appendix pages 8a to 14a.

expanded the laws of this country to enjoin activities abroad since such activities were causing unlawful effects in the United States which the Lanham Act was intended to prevent. In *Bulova*, the defendant had sold spurious Bulova watches, having some U.S.-made components, in Mexico to U.S. citizens. *Id.* at 285. Many of the watches found their way into the U.S. as evidenced by hundreds of complaints to U.S. jewelers and to Bulova's representatives.[5] The defendant's foreign-based activities accordingly caused actual confusion and damage to the respondent's reputation in the U.S. Due to these unlawful effects on U.S. commerce, the Court extended the jurisdiction of the Lanham Act to the defendant's activities in Mexico. *Id.* at 285. [6] In addition to the harmful effect on U.S. commerce, the Court determined that the citizenship of the defendant and possible conflicts with foreign law were also to be considered. *Id.* at 286 and 289.

A. THE CIRCUITS HAVE SPLIT IN THEIR INTERPRETATION OF BULOVA

In attempting to follow *Bulova*, the various circuits have adopted multi-part tests in order to determine whether the Lanham Act should reach foreign activities. However, a split in the circuits has developed over the years. This split has been well recognized by the courts and commentators alike. *Totalplan Corp. of America v. Colborne*, 14 F.2d 825, 830 (2d

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[5]Bulova's representative in Texas testified that over 500 complaints had been received due to the defendant's activities. *See* Transcript of Record at 78 filed in *Bulova*, 344 U.S. 280.

[6]Even on these facts the Court was divided with Justices Reed and Douglas finding against the extraterritorial expansion of the Lanham Act due to the lack of clear statutory intent. *Bulova*, 344 U.S. at 291.

Cir., 1994); 4 J. McCarthy, *McCarthy on Trademarks and Unfair Competition*, § 29.58 (4th Ed. 1997). The Second Circuit test, as set forth in *Vanity Fair Mills, Inc. v. T. Eton Co.*, 234 F.2d 633 (2d Cir. 1956), *cert. denied*, 352 U.S. 871 (1956), examines whether the defendant's activities have had a substantial effect on U.S. commerce, the citizenship of the defendant, and the likelihood of conflict with foreign law. In contrast, the Ninth Circuit adopted a test which requires a less stringent some effect on commerce and examines other factors to determine comity issues. *Wells Fargo & Co. v. Wells Fargo Express Co.*, 556 F.2d 406, 428 (9th Cir. 1977).[7] The Second Circuit has explicitly rejected the test employed by the Ninth Circuit, and the Ninth Circuit has explicitly rejected the test of the Second Circuit. *Totalplan*, 14 F.2d at 830; *Wells Fargo*, 556 F.2d at 428. Petitioners respectfully submit that clarification is required in the interest of justice.

B. EFFECT ON COMMERCE INQUIRY HAS NOT BEEN PROPERLY LIMITED BY THE CIRCUITS TO TRADEMARK IMPAIRING EFFECTS

The lower courts, while disagreeing on the requisite effect on commerce, have almost uniformly failed to limit the effect on commerce inquiry to trademark impairing harms such as likelihood of confusion of U.S. consumers and injury to the reputation and goodwill of the trademark holder in the United States. Accordingly, the implementation of the circuit court tests exceeds the scope of the Lanham Act and this Court's precedent set forth in *Bulova*.

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[7]The Ninth Circuit test has been followed by the Fifth Circuit in *American Rice, Inc. v. Arkansas Rice Growers*, 701 F.2d 408 (5th Cir. 1983).

The Lanham Act was enacted to protect consumers in this country from confusion due to similarly marked goods and services. *Sterling Drug, Inc. v. Bayer AG*, 14 F.3d 733, 746 (2d Cir. 1994). [8] This Court has recognized that

> "[t]he law of unfair competition has its roots in the common-law tort of deceit; its general concern is with protecting consumers from confusion as to source."

Bonita Boats, Inc. v. Thunder Craft Boats, Inc., 489 U.S. 141, 157 (1989).

The Act is also intended to protect the goodwill of trademark holders and protect the marks from misappropriation. *Sterling Drug*, 14 F.3d. at 746. However, the rights which are established either under a federal registration or through common law use in this country are limited to the U.S. and are not enforceable in the courts of foreign nations. [9] For example, U.S. courts have explicitly rejected the assertion of foreign trademark rights in the United States. *Person's*, 900 F.2d 1565; *A. Bourjois & Co. v. Katzel*, 260 U.S. 689 (1923).[10] Since the

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[8] "Confusion of the public is the essence of both trademark infringement and unfair competition." 1 *McCarthy on Trademarks and Unfair Competition* §2:33, p. 2-57 (*quoting Dart Drug Corp. v. Schering Corp.*, 320 F.2d 745, 748 (D.C. Cir. 1963).

[9] "The concept of territoriality is basic to trademark law; trademark rights exist in each country solely according to that country's statutory scheme." *Person's Co. v. Christman*, 900 F.2d 1565, 1568-69 (Fed. Cir. 1990).

[10] The Second Circuit in *Vanity Fair* noted with regard to an international treaty governing industrial property that

> "The [Paris] convention is not premised upon the idea that the trade-mark and related laws of each member nation shall be given extraterritorial application, but on

rights flowing from the Lanham Act are limited to the U.S., the only harm which is properly actionable under the Act is confusion of American consumers and damage to reputation and goodwill in the U.S.

The harm to a trademark holder's reputation abroad or confusion of foreign consumers is not the type of harm the Lanham Act was designed to prevent, and therefore should not enter into the determination of whether there has been a substantial effect on U.S. commerce. The Court in *Bulova* implicitly recognized this legal reality by its concentration on the fact that actual confusion occurred in the U.S. and that the reputation of the respondent was damaged in the U.S. due to the foreign activity. By broadening the effect on commerce inquiry to effects other than trademark harm in the U.S., the courts are essentially granting owners of U.S. trademark rights foreign rights as well. Harms such as these should be addressed by foreign courts under the laws of the jurisdictions in which the alleged harms occurred.

The *Bulova* Court specifically distinguished cases in which the unlawful effects of the statute at issue did not reach the U.S. In distinguishing *American Banana Co. v. United Fruit Co.*, 213 U.S. 347 (1909), the Court stated that "[u]nlawful effects in this country, absent in the posture of the Banana case before us are often decisive." *Bulova*, 344 U.S. at 288. [11] The Court also relied on *U.S. v. Sisal Sales Corp.*, 274 U.S. 268 (1927), which stated that the petitioner, by his "own

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> exactly the converse principle that each nation's laws shall have only territorial application."

Vanity Fair, 234 F.2d at 640.

[11] Clearly the plaintiff in *American Banana*, a U.S. corporation, was financially harmed by the defendant's activities. However, that alone was not enough.

deliberate acts here and elsewhere, ... brought about forbidden results in the United States." *Bulova*, 344 U.S. at 288. In *Sisal*, the defendant conspired to control the flow of goods into the U.S. and to control the price of those goods in the U.S. *Sisal*, 274 U.S. at 276. It is clear from these cases that the extraterritorial acts which a party seeks to enjoin must be the type which result in forbidden effects in this country.

Despite the obvious caution exercised by the Court in *Bulova* in applying the Lanham Act extraterritorially, the district and circuit courts have frequently considered evidence having nothing to do with protecting U.S. consumers or U.S. trademark rights in determining whether an alleged harm has had an effect on commerce. Factors such as diversion of foreign sales, injury to foreign licensees, and harm to reputation in the foreign country have been given considerable weight in supporting extraterritorial application of the Act. *See, e.g., Totalplan, 14 F.3d at 830; Calvin Klein Industries v. BFK Hong Kong, Ltd.*, 714 F. Supp. 78 (S.D.N.Y. 1989). These types of injuries to a plaintiff, however, are not trademark harm in the U.S. Using such misplaced logic, a substantial effect on U.S. commerce can be found even when there is no confusion of U.S. consumers and no harm to the goodwill of the plaintiff in the U.S. In the case at bar, the mere fact that the Petitioners were U.S. citizens using the instrumentalities of U.S. commerce was deemed significant, if not conclusive, in determining that there was a substantial effect on U.S. commerce. If the rule of law from this case were followed, essentially any U.S. company doing business in the U.S. would be accountable for foreign activities under the Lanham Act. Under the Second Circuit test, two of the three relevant factors are U.S. citizenship and substantial effect on commerce. Most, if not all U.S. companies would automatically lose on two of these factors. Lanham Act liability would arise in all but the most unusual of circumstances.

As discussed above, misapplication of *Bulova* has led to a number of decisions where courts have found sufficient effects on commerce to invoke the Lanham Act even where no Lanham Act type harm in the U.S. has been established. *See, e.g., Calvin Klein*, 714 F.Supp. at 80 (Harm to plaintiff's reputation abroad was deemed a significant factor in extending jurisdiction under the Lanham Act); *Amway Corp. v. Dyson*, 1997 U.S. Dist. LEXIS 15735 *14-15 (W.D. Mich. 1997) (Damage to reputation abroad found to result in a substantial effect on commerce.); *Philip Morris Inc. v. Midwest Tobacco Inc.*, 9 U.S.P.Q. 2d 1210, 1213 (E.D. Va. 1988) (Since sales by defendant abroad may be expected to diminish plaintiff's revenues, the effect on commerce was found to be appreciable.) In contrast, some courts have correctly recognized the need for the effects to be trademark impairing. *Atlantic Richfield Co. v. Arco Globus Int'l Co., Inc.*, 47 U.S.P.Q.2d 1532, 1232 (2d. Cir. 1998). This fundamental principle has, however, too often been ignored.[12]

In *Bulova*, the Court found Congressional intent to extend the Lanham Act extraterritorially in the broad language defining "commerce" within the statute. *Bulova*, 344 U.S. at 284. Judge Learned Hand however, recognized that the general words of a statute should not be read "without regard to the limitations customarily observed by nations upon the exercise of their powers..." *United States v. Aluminum Co. of Am.*, 148 F.2d 416, 443 (2d Cir. 1945) ("*Alcoa*"). A state may impose liabilities for foreign conduct if it results in consequences "within its borders which the state reprehends..." *Id.* While any foreign activity may have an effect in this country, something

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[12]The Second Circuit in *Sterling Drug*, recognized that Congress intended the Lanham Act to be "used as a shield against foreign uses that have significant trademark-impairing effects upon American commerce." *Sterling Drug*, 14. F3d. at 746 (emphasis added).

more then a general impact is required. The consequences which Congress "reprehends" as set forth in the Lanham Act is confusion of U.S. consumers and harm to the reputation of trademark holders in the U.S. Thus, the foreign application of the Act should require such harms.

In the present case, the lack of U.S. trademark harm resulting from Petitioners' activities was expressly recognized by the court. Any possible consumer confusion or harm to reputation was limited to Canada. The District Court was left to rely on the Petitioners' general availing of the modes of commerce, such as the mails and phones, in finding a substantial effect on U.S. commerce. This strained application of the Lanham Act should not stand.

C. COMPARISON TO EXTRATERRITORIAL APPLICATION OF ANTITRUST LAW

The need to limit the "effect on commerce" test to the unlawful effects which the statute at issue sought to prevent is reflected in the courts' extraterritorial application of the antitrust laws. Indeed, this Court in *Bulova* as well as the lower courts have relied on the antitrust case law in addressing the issue of extraterritorial application of the Lanham Act. *Bulova*, 344 U.S. at 288; *Wells Fargo*, 556 F.2d at 427-428. The antitrust laws were enacted to protect consumers from monopolistic activities which tend to control the price and availability of goods and services in an anti-competitive manner. In applying the law, the courts have consistently held that the effects which are relevant to the issue of applying the law extraterritorially are those which have an anti-competitive effect in the U.S. *Sisel*, 274 U.S. at 276; *Alcoa*, 148 F.2d at 444; *Hartford Fire Ins. Co. v. California*, 509 U.S. 764 (1993).

For example, in *Hartford*, the anti-competitive result was to affect the market for insurance in the U.S. by the limitation of insurance coverage available to those in the U.S. *Hartford*, 509 U.S. at 784.[13] Similarly, when deciding the issue of whether to extend the Lanham Act to acts abroad, the courts should require that the effects on U.S. commerce be unlawful trademark impairing effects in the U.S. By failing to so limit their exercise of Lanham Act jurisdiction, the courts in general and particularly the courts in the case at bar have gone way beyond the holding of *Bulova* and the rule of law followed in the antitrust cases from which it was derived.

In the present case, no trademark harm occurred in the U.S. The District Court found that no goods ever passed into this country, as they were manufactured in Chinese factories and shipped directly to Canadian companies. Payments for all accused footwear was made directly by the Canadian companies to the manufacturers with Petitioners only receiving a commission as buying agent. The footwear was sold by Canadian retailers to Canadian consumers. No evidence of confusion of a single U.S. citizen was presented, nor was any harm to the Respondent's U.S. reputation ever shown. There was no evidence of accused shoes crossing the border into the U.S. Even the District Court concluded that the question of substantial effect on commerce was "equivocal." Despite these facts, and based almost exclusively on Petitioners' use of the instrumentalities of commerce, this factor was found to weigh

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[13]With the amendment of the antitrust laws as reflected in 15 U.S.C. § 6a (1982), Congress specifically amended the antitrust laws to essentially codify the principle that the effect required for extending the antitrust laws to cover foreign activity must be a domestic anti-competitive effect. *Liamuiga Tours v. Travel Impressions, Ltd.*, 617 F.Supp. 920, 924 (E.D.N.Y. 1985) (Court citing House Report regarding the purpose of the amendment.)

in favor of Aerogroup. Any impact on U.S. commerce resulting from Petitioners' non-U.S. activities was negligible at best, and the sale of shoes in Canada resulted in absolutely no trademark type harm in the U.S. Accordingly, in view of *Bulova*, the Federal Circuit committed error in upholding the District Court finding with regard to substantial effect on commerce.

The case at bar gives this Court the opportunity to rule on whether the harm to be considered in such cases must be Lanham Act type harm, and to settle the ongoing dispute among the circuits as to which test should be used in applying the Lanham Act extraterritorially.

D. LEGAL ERROR COMMITTED UNDER SECOND CIRCUIT LAW

The Second Circuit in *Vanity Fair* interpreted *Bulova* as stressing three factors, 1) substantial effect on U.S. commerce, 2) the citizenship of defendants and 3) conflict with foreign laws, to be considered in determining possible extraterritorial application of the Lanham Act. *Vanity Fair*, 234 F.2d at 642. However, the finding of a substantial effect on U.S. commerce is crucial to this determination. In *Atlantic Richfield*, the plaintiffs argued that extraterritorial application of the Lanham Act would be appropriate even in the absence of a substantial effect on U.S. commerce if the defendants are U.S. citizens and no conflict with foreign law is established. *Atlantic Richfield*, 47 U.S.P.Q. 2d at 1531 n. 4. The Second Circuit addressed this argument by stating that

> *Vanity Fair* stated only that 'the absence of one of the [first two] factors [citizenship and conflict with foreign laws] might well be determinative and that the absence of both is

> certainly fatal.' [citations omitted] This language from *Vanity Fair* indicates, at most that the presence of one and perhaps both of the first two factors is sufficient. Indeed, we have never applied the Lanham Act to extraterritorial conduct absent a substantial effect on United States commerce.

Id.

No convincing evidence was presented by Aerogroup which established the existence of any of the traditional elements which courts have relied upon in determining whether a substantial effect on commerce exists, such as evidence of goods returning to the United States, evidence of confusion of U.S. consumers, evidence of the goods passing through the United States, evidence of the goods being manufactured in whole or in part in the United States, clear evidence that Marlboro's activities diverted sales from Aerogroup, or clear evidence of harm to Aerogroup's reputation.[14] Furthermore, even the total sales involved were not found to be substantial. *Aerogroup*, 955 F. Supp. at 230.

The District Court, in finding a substantial effect on commerce, based its findings

> in significant part on the fact that Marlboro conducted business almost exclusively within the United States and used the instrumentalities of American commerce to profit at Aerogroup's expense...

Aerogroup, 955 F. Supp. at 230,

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[14]Moreover, Aerogroup's lack of evidence on this *Vanity Fair* factor was punctuated by its manufacturing of evidence in the form of a sham Affidavit of one Ms. Viola to show a Canadian sale to a U.S. citizen. The District Court properly gave this "evidence" no weight.

As Judge Gajarsa stated in his dissent,

> ... I can see no reason why using a fax machine, telephone, mail and participating in a trade show within the United States, alone, is sufficient to trigger an extraterritorial application of the Lanham Act. Conduct of this type is far less than what has been previously required by the Second Circuit.

Aerogroup, 1998 U.S. App. LEXIS 7733 at *16-17.

Judge Gajarsa's interpretation of Second Circuit law was fully, though belatedly, vindicated in the July 17, 1998 decision by the Second Circuit in *Atlantic Richfield*. The majority decision in the case at bar cannot be reconciled with this recent decision, which clearly found Lanham Act harm in the United States to be the most important factor in determining the extraterritorial reach of the Act.

> First, *Bulova* does not hold that a defendant's domestic activity, even if "essential" to infringing activity abroad, is alone sufficient to constitute a substantial effect on United States commerce. In *Bulova*, the infringing product, although manufactured and sold abroad, was coming into the United States for sale, resulting in consumer confusion and harm to the plaintiff's goodwill in the United States."

Atlantic Richfield, 47 U.S.P.Q. 2d at 1532.

As neither *Bulova* nor Second Circuit law were properly followed in the case at bar, the decision of the Federal Circuit should not stand.

The District Court's finding, in effect, collapses the citizenship analysis into the analysis of a substantial effect on U.S. commerce.[15] As stated by Judge Gajarsa

> The district court erroneously use[d] the single factor of citizenship to satisfy not only the citizenship requirement, but also to satisfy the requirement of a substantial effect on commerce.

Aerogroup, 1998 U.S. App. LEXIS 7733 at *16.

The court's conclusion is in conflict with the established Second Circuit law which employs a three factor test, and therefore constitutes legal error. *See Totalplan*, 14 F.3d at 830; *Vanity Fair*, 234 F.2d at 642. It should not have been affirmed.

E. CONFLICT WITH FOREIGN LAWS

In *Bulova*, this Court indicated that a potential conflict with foreign law is relevant to the determination of whether to apply the Lanham Act extraterritorially. *Bulova*, 344 U.S. at 289. The district courts have accordingly instituted various tests to determine if a conflict with foreign law would result from applying the Lanham Act to foreign activities. *Vanity Fair*, 234 F.2d at 642, *Wells Fargo*, 556 F.2d at 428.

In *Bulova*, after the grant of certiorari, a prolonged litigation in the courts of Mexico concluded with the Supreme Court of Mexico upholding an administrative ruling which nullified the defendant's Mexican registration of "BOLOVA".

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[15]The District Court, in addressing the application of the Lanham Act to Bata, a Canadian corporation, found that the acts of acquiring and selling of the very same footwear did not result in a substantial effect on U.S. commerce.

Bulova, 344 U.S. at 285. The *Bulova* court concluded that, due to this nullification, there would be no conflict with foreign law by the extraterritorial application of U.S. law. *Id.* at 289. In addition, the Court specifically left the question open as to whether a valid foreign registration would affect the power of U.S. courts to enjoin foreign activity. *Id.* Also left unanswered was whether a determination of no conflict could fairly be reached absent a judicial determination with respect to the defendant's rights in the foreign jurisdiction.

As with the issue of effect on commerce, the lower courts have gone well beyond the holding of *Bulova*. In direct contrast to *Bulova*, some courts have even required a foreign judicial determination that the defendant had superior rights in a particular country to support a claim of conflict. *American Rice, Inc. v. Arkansas Rice Growers*, 701 F.2d 408, 415 (5th Cir. 1983). Courts have also inexplicably placed the burden on the defendant to show they do not infringe the plaintiff's marks in the foreign jurisdiction. *Id.* at 415; *Leatherman Tool Group Inc. v. Cooper Industries Inc.*, 47 U.S.P.Q. 2d 1045, 1047 (D. Or. 1997). Furthermore, U.S. courts have determined that no conflict exists without undertaking any detailed review of the law and market conditions of the foreign jurisdiction. *See, e.g., American Rice,* 701 F.2d at 415; *King v. Allied Vision, Ltd.*, 807 Fed. Supp. 300, 307 (S.D.N.Y. 1992) *aff'd* 976 F. 2d 824 (2d Cir. 1992). This approach is in stark contrast to the thorough analysis conducted by the same courts in applying U.S. law to alleged acts of infringement in the United States.

Some U.S. courts have recognized the problems associated with conducting superficial reviews of foreign laws and decisions interpreting such laws, and have determined that a potential conflict is sufficient to prevent foreign application of the Lanham Act. *See, e.g., American White Cross Labs v. H.M. Cote*, 556 F. Supp. 753, 757 (S.D.N.Y. 1983); *C-Cure*

Chemical Co., Inc., v. Secure Adhesives Corp., 571 F. Supp. 808, 821 (W.D.N.Y. 1983). In *American White Cross*, the court found it significant that the defendant had a Canadian trademark application on file which had a reasonable chance of issuing. *American White Cross*, 556 F. Supp. at 757. The court in *C-Cure* recognized that a potential conflict existed due to possible inconsistent findings between the U.S. court and the Canadian courts in which the defendant had also been sued. *C-Cure*, 571 F. Supp. at 821. However, the majority of courts have not extended the deference to the foreign jurisdictions that due process demands.

In the case at bar, the goods which were enjoined were primarily sold by the Canadian retailer, Bata, which claims ownership in the word mark AIR SUPPLY. Bata's Canadian trademark application was never opposed by Aerogroup or its agent, and a substantial question remains whether the accused goods would be found infringing under Canadian law. No inquiry was made into this possibility or as to how a Canadian court would have handled the entire manner. In addition, as Judge Gajarsa noted, the District Court did not even find that there was no conflict with foreign law. *Aerogroup*, 1998 U.S. App. LEXIS 7733 at *12.

A cursory review by the District Court led to its conclusion that the conflict with foreign law factor did not clearly favor either party. Yet, in deciding this issue with respect to Bata, the court noted that the facts were "sufficient to increase the court's caution in exercising jurisdiction over matters more appropriately left to Canadian courts." *Aerogroup*, 955 F. Supp. at 231. This same caution should have been exercised when analyzing this factor with respect to Marlboro. The dichotomy in the District Court's decision between Bata and Marlboro can only be explained by the difference in citizenship between the two parties. Therefore, as

with the effect on commerce factor, the citizenship of Marlboro was unduly held against it.

The District Court's findings create the possibility for a real conflict to occur, since Respondent's or its customer's Canadian rights were never ascertained. While it has not done so, Bata is free to source its footwear from a non-U.S. company and continue to sell the very same footwear that the Petitioners are enjoined from providing. Therefore, only a U.S. company is prevented from competing in the Canadian market. Indeed, there is pending trademark litigation in Canada between Bata and Aerogroup concerning the very shoes forming the subject of the present litigation.[16] If Bata is successful in this Canadian suit, then Marlboro will be the only party in the world who can not supply these goods, and Bata will be prevented from obtaining footwear from an established supplier. Such a result would be clearly unjust.

The *Bulova* court expressly did not address the issue of conflicts of foreign law where the defendant had a valid registration. Moreover, the Court also did not address the situation where there is no specific foreign judicial determination concerning the defendant's foreign trademark rights. Accordingly, the case at bar gives this Court the opportunity to provide guidance to the lower courts to ensure proper deference is given to the laws of other nations as well as to prevent injustice to U.S. citizens.

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[16] *Aerogroup International, Inc. v. Bata Industries Ltd.*, Federal Ct. of Canada, Trial Division, Court File No. T-1858-97, filed on August 27, 1997.

F. PRESUMPTION AGAINST EXTRATERRITORIAL APPLICATION OF LAWS SHOULD RESTRICT UNWARRANTED EXPANSION OF THE LANHAM ACT

The expansive reading of the Lanham Act and the broad interpretation of *Bulova* run contrary to the longstanding presumption against applying U.S. laws to extraterritorial activities. *See* Curtis A. Bradley, *Extraterritorial Application of U.S. Intellectual Property Law: Principal Paper: Teritorrial Intellectual Property Rights in an Age of Globalism*, 37 Va. J. Intl L. 505, 509-512 (1997). The decision not to extend U.S. law to foreign activity has been applied to fair labor statutes[17], environmental statutes[18], and more recently to Title VII of the Civil Rights Act of 1964[19]. Furthermore, both the copyright laws and the patent laws have been limited in their extraterritorial reach. *See, e.g., Deepsouth Packing Co. v. Laitram Corp*, 406 U.S. 518 (1972)[20], *United Dictionary Co. v. G. C. Merriam Co.*, 208 U.S. 260 (1908), *Subafilms, Ltd. v. MGM-Pathe Communications Co.*, 24 F.3d 1088 (9th Cir. 1994). While *Bulova* clearly carved out an exception to this presumption, the breadth of this exception must be viewed in

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[17] *McCulloch v. Sociedad Nacional de Marineros de Honduras*, 372 U.S. 10, 19-22 (1963).

[18] *Natural Resources Defense Council v. Nuclear Regulatory Comm'n*, 647 F.2d 1345, 1364-65 (D.C. Cir. 1981).

[19] *E.E.O.C. v. Arabian Am. Oil Co.*, 499 U.S. 244 (1991)

[20] The specific holding of *Deepsouth* was overruled by Congress which created a limited exception to the general rule that patent protection extends only within the U.S. *See* 35 U.S.C. 271(f) (1994).

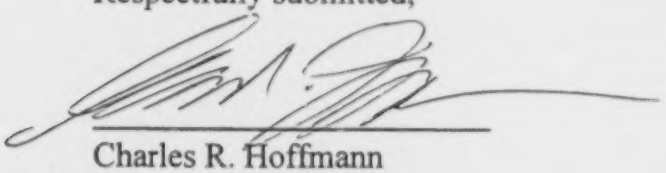
light of the general presumption against extending the effect of U.S. laws to encompass foreign activities.

Foreign laws often differ greatly from U.S. laws, and the scope of a trademark owner's rights may vary substantially from country to country. Accordingly, it is common practice to seek the advice of foreign trademark counsel prior to selling products in a foreign country, or to rely on the judgment of one's major customers, both of whom are far more capable of assessing whether any laws of the country would be violated than counsel in the United States. Application of the Lanham Act without heed as to whether U.S. customers are impacted by the alleged infringement undermines accepted procedure, and leads to highly questionable decisions. Moreover, since the intent of Congress regarding extraterritorial application of the Lanham Act is questionable, it would be advisable to limit the scope of any exception to the presumption against foreign application. Accordingly, trademark harm in the U.S. should be required before U.S. courts involve themselves with cases based on foreign activities and laws which may be quite different from those in this country.

III. CONCLUSION

The law since *Bulova* has evolved such that one's citizenship is now deemed the most important factor in determining whether to apply the Lanham Act extraterritorially. The recent *Atlantic Richfield* decision is a rare exception to this trend. Lanham Act harm is now secondary in most cases, to the extent it is deemed relevant at all! It is no longer sufficient to clear the non-U.S. use of a trademark with foreign trademark counsel. One must also guess how the Lanham Act may apply to foreign activities even where they will have no impact in the United States. There is no sound reason for imposing such a burden on U.S. citizens. In addition, uncertainty as to whether foreign activity will come within the Lanham Act is aggravated by the split in the circuits and the prospects of forum shopping. The assistance of this Court is needed to restrain the lower courts from overbroad interpretations of the Lanham Act, and provide guidance to the courts on issues which this Court has not previously addressed. The case at bar provides the Court with the opportunity to achieve these goals. Therefore, the granting of this petition is respectfully requested.

Respectfully submitted,



Charles R. Hoffmann
(Counsel of Record)
Hoffmann & Baron, LLP.
350 Jericho Turnpike
Jericho, New York 11753
Attorney for Petitioners
Marlboro Footworks, et al.

APPENDIX

AEROGROUP INTERNATIONAL, INC.,

Plaintiff-Appellant,

v.

MARLBORO FOOTWORKS, LTD., STEVEN GOLDBERG and LAURANCE D. KOPLAN,

Defendants/Cross-Appellants,

v.

BATA INDUSTRIES LIMITED,

Defendant,

and

NATIONAL INDEPENDENT RETAILERS, INC., GOLDPORT ENTERPRISES, INC., SHOE CARNIVAL, INC., MARLBORO FOOTWORKS, LTD. (TAIWAN), MASATERU UEHARA and MELVILLE CORPORATION,

Defendants,

and

GREDICO FOOTWARE LIMITED, TOWN SHOES LIMITED, FREDERICK ATKINS, INC. and WEISS & NEUMAN SHOE CO.,

Defendants.

DECIDED: April 13, 1998

NOTICE: [*1] RULES OF THE FEDERAL CIRCUIT COURT OF APPEALS MAY LIMIT CITATION TO UNPUBLISHED OPINIONS. PLEASE REFER TO THE RULES OF THE UNITED STATES COURT OF APPEALS FOR THIS CIRCUIT.

DISPOSITION: Affirmed

JUDGES: Before MAYER, Chief Judge, * PLAGER, and GAJARSA, Circuit Judges. Opinion concurring-in-part and dissenting-in-part filed by Circuit Judge GAJARSA. * Chief Judge Haldane Robert Mayer assumed the position of Chief Judge on December 25, 1997.

OPINION:
PER CURIAM.

Aerogroup International, Inc. ("Aerogroup") appeals from the November 15, 1996 judgment of the United States District Court for the Southern District of New York, denying in part its request for an injunction against Marlboro Footworks, Ltd., Steven Goldberg, Laurance D. Koplan, Bata Industries Ltd., National Independent Retailers, Inc., Goldport Enterprises, Inc., Shoe Carnival, Inc., Marlboro Footworks, Ltd. (Taiwan), Masateru Uehara, Melville Corporation, Gredico Footwear Limited, Town Shoes Limited, Frederick Atkins, Inc., and Weiss & Neuman Shoe Co. Aerogroup also appeals the trial court's February 10, 1997 order canceling certain federal and state trademark registrations. Marlboro Footworks, Inc., Steven Goldberg, and Laurance [*2] D. Koplan (collectively "Marlboro") cross-appeal the trial court's order

applying the Lanham Act to sales in Canada. Aerogroup Int'l, Inc. v. Marlboro Footworks, Ltd., 955 F. Supp. 220 (S.D.N.Y. 1997). We affirm.

We have jurisdiction over these appeals pursuant to 28 U.S.C. §§ 1292(a)(1) and (c)(1994). In exercising this review, we apply the law of the circuit in which the pendant trademark claims were tried.[1] See Bandag, Inc. v. Al Bolser's Tire Stores, 750 F.2d 903, 909, 223 U.S.P.Q. (BNA) 982, 986 (Fed. Cir. 1984).

Aerogroup argues that the trial court erred in finding that Marlboro's "Air Twist" logo with a design of two hands twisting a shoe held horizontally and Marlboro's "FEATHERLITE too!" logo are not likely to be confused with Aerogroup's own trade dress. Aerogroup's trade dress includes: (1) a federally registered [*3] trademark AEROSOLES, which the trial court found to be a strong mark; (2) an underlined "swoosh," which alone the trial court found to be in common use; and (3) a design for a shoe twisted vertically, for which Aerogroup has filed a federal trademark application and which the trial court found to be distinctive. To determine likelihood of confusion, the Second Circuit uses the eight factors set forth by Judge Friendly in Polaroid Corp. v. Polarad Elecs. Corp., 287 F.2d 492, 495, 128 U.S.P.Q. (BNA) 411, 413 (2d Cir. 1961). We review the factual findings underlying each of these eight factors for clear error and the court's ultimate balancing of these factors in determining likelihood of confusion de novo. See Estee Lauder Inc. v. The Gap, Inc., 108 F.3d 1503, 1510, 42 U.S.P.Q.2D (BNA) 1228, 1233 (2d Cir.

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[1]Though Aerogroup's design patent claim was pending at the time this appeal was filed, the trial court has since granted summary judgment of noninfringement of Aerogroup's patent.

1997); Arrow Fastener Co. v. Stanley Works, 59 F.3d 384, 391, 35 U.S.P.Q.2D (BNA) 1449, 1452 (2d Cir. 1995).

In comparing Marlboro's "Air Twist" logo with Aerogroup's trade dress, the court found, inter alia, that: the goods on which they are used are sold to different segments of the lightweight flexible women's shoe market; evidence of actual confusion was anecdotal and very weak, Marlboro deliberately chose a sole it believed Aerogroup did not own; consumers of these shoes are sophisticated enough to distinguish between these shoes; and most importantly the marks are not sufficiently similar to engender substantial consumer confusion. Aerogroup has not shown these findings to be clearly erroneous, nor has it shown that together they should result in a legal determination of likelihood of confusion. Similarly, although Aerogroup's "Aerosoles" label and Marlboro's "FEATHERLITE too!" label both exhibit similar color schemes, script, and underscoring, we can find no error in the district court's holding of no likelihood of confusion between the two, due to the clear display of phonetically different words in a market where many others use similar trade dress for shoe box designs.

We also cannot say that the trial court erred in canceling Aerogroup's waffle pattern trademark for lack of secondary meaning in 1994, when the alleged infringing use began.[2] The existence of secondary meaning is a question of fact, which we review for clear error. See Arrow Fastener, 59 F.3d at 393, 35 U.S.P.Q.2D (BNA) at 1454. In determining whether the waffle

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[2] The trial court attributed to Aerogroup's waffle trademark a presumption of distinctiveness, due to its federal registration in 1996. Although the trial court may have erred in extending this presumption to pre-registration activities see 15 U.S.C. § 1115(a) (1994) (presumption of distinctiveness begins when the trademark is registered), this error would have worked only in Aerogroup's favor and is therefore harmless.

mark had acquired distinctiveness, the trial court considered: Aerogroup's frequent use of the waffle pattern without indication that it considered the pattern to be a trademark; Aerogroup's own survey, which showed at best minimal brand awareness; Aerogroup's 1996 trademark registration under section 2(f) of the Lanham Act, 15 U.S.C. § 1052 (1994), which was based on a 1990 application that included nothing more than hearsay testimony about distinctiveness and did not provide information about Aerogroup's private labeling activities; evidence of frequent and tolerated imitation in the shoe sole industry; and evidence of at least five significant users of similar shoe tread patterns beyond Aerogroup's private labeling activities. Thus, the record contains ample evidence to support the trial court's conclusion that Aerogroup's waffle pattern lacked secondary meaning, despite the 1996 federal trademark registration.

Aerogroup argues that the trial court erred in relying, ostensibly, on evidence of extensive private labeling. Although private labeling is permitted, a trademark owner must ensure that such activities do not undercut the mark's ability to designate a single source of the goods. See Mana Prods., Inc. v. Columbia Cosmetics Mfg., Inc., 65 F.3d 1063, 1071, 36 U.S.P.Q.2D (BNA) 1176, 1181 (2d Cir. 1995) (because "countless numbers" of companies in the cosmetics industry utilized the color black on compacts, its use did not serve to identify the source of the product). Given the record presented on appeal, we cannot say the trial court clearly erred in concluding that the extensiveness of Aerogroup's private labeling had such an undercutting effect in light of what little inherent distinctiveness, if any, the trial court attributed to the mark.

Accordingly, we do not disturb the trial court's order canceling United States trademark registration No. 1,953,875

and State of New York trademark registration No. R-26601. In addition, because we determine that the trial court did not err in concluding that Aerogroup's waffle pattern trademark lacked secondary meaning, we need not address the trial court's determination that Marlboro's waffle design is not likely to be confused with Aerogroup's own waffle design.

On cross-appeal, Marlboro argues that the trial court erred in extending the injunction to include sales in Canada. It is well-settled that the Lanham Act "confers broad jurisdictional powers" upon the federal courts to enjoin infringing activities committed outside the territorial limits of the United States. Steele v. Bulova Watch Co., 344 U.S. 280, 283-87, (1952). The Second Circuit has extracted the following three-part analysis from Bulova to determine what territorial effect to give the Lanham Act: (1) does defendant's conduct have a substantial effect on United States commerce; (2) is defendant a United States citizen; and (3) is there a conflict with defendant's trademark rights established under foreign law. See Vanity Fair Mills v. T. Eaton Co., 234 F.2d 633, 642-43,109 U.S.P.Q. (BNA) 438, 444 (2d Cir. 1956). The Second Circuit does not apply its Vanity Fair Mills test mechanically, but refines it to "preserve the Lanham Act's goals of protecting American consumers against confusion, and protecting holders of American trademarks against misappropriation of their marks." Sterling Drug, Inc. v. Bayer AG, 14 F.3d 733, 746, 29 U.S.P.Q.2D (BNA) 1321, 1330 (2d Cir. 1994). Accordingly, "the absence of any one factor is not dispositive." See Calvin Klein Indus., Inc. v. BFK Hong Kong, Ltd., 714 F. Supp. 78, 79, 11 U.S.P.Q.2D (BNA) 1730, 1731 (S.D.N.Y. 1989).

Here, the trial court correctly found that being incorporated and headquartered in Massachusetts, Marlboro is a United States citizen, subject to the court's "considerable

authority to regulate any foreign activities." Aerogroup, 955 F. Supp. at 229. Similarly, the court correctly found that Marlboro had not registered the AIR SUPPLY mark in Canada and that it could not piggyback its claim on Bata's application for that mark. See id. at 230. Finally, relying in significant part on the location where Marlboro conducted its business, the court found the effect of Marlboro's Canadian sales to be substantial, though equivocal. See id. at 229-30. Specifically, the court found that Marlboro solicited Canadian customers at shoe shows in the United States, its sales caused, in part, Aerogroup to lose its largest Canadian customer, that lost orders would have been larger but for Aerogroup's "prompt action in filing this lawsuit," but that much of the injury to Aerogroup's reputation was mitigated by its own knock-off sales. Id. at 230. Given these findings, which Marlboro has not shown to be clearly erroneous, the court's extraterritorial application of the Lanham Act using the Vanity Fair Mills analysis was proper. See, e.g., BFK Hong Kong, 714 F. Supp. at 80, 11 U.S.P.Q.2D (BNA) at 1732. This result is consistent with George W. Luft Co. v. Zande Cosmetic Co., 142 F.2d 536, 61 U.S.P.Q. (BNA) 424 (2d Cir. 1944) in that both Marlboro and Aerogroup were doing business in Canada, but Marlboro had not established trademark rights.

AEROGROUP INTERNATIONAL, INC.,

Plaintiff-Appellant,

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MARLBORO FOOTWORKS, LTD., STEVEN GOLDBERG and LAURANCE D. KOPLAN,

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NATIONAL INDEPENDENT RETAILERS, INC., GOLDPORT ENTERPRISES, INC., SHOE CARNIVAL, INC., MARLBORO FOOTWORKS, LTD. (TAIWAN), MASATERU UEHARA and MELVILLE CORPORATION,

Defendants,

and

GREDICO FOOTWARE LIMITED, TOWN SHOES LIMITED, FREDERICK ATKINS, INC.and WEISS & NEUMAN SHOE CO.,

Defendants.

CONCURBY: GAJARSA, (In Part)

DISSENTBY: GAJARSA, (In Part)

DISSENT:

GAJARSA, Circuit Judge, concurring-in-part and dissenting-in-part.

While I agree with the majority's holding on the appeal, dissent with respect to the majority's disposition of the cross-appeal affirming the district court's decision that the Lanham Act reaches Marlboro's activities in Canada. The extraterritorial scope of the Lanham Act was first addressed by the Supreme Court in Steele v. Bulova Watch Co., 344 U.S. 280, 97 L. Ed. 319, 73 S. Ct. 252 (1952). In Bulova, the Court held that the Lanham Act could be extended to obtain jurisdiction over a United States citizen conducting business in Mexico. Bulova involved a U.S. citizen who purchased watch parts in the United States and assembled them in Mexico for sale with the "Bulova" mark affixed. The Court reasoned that the Lanham Act applied to the defendant's activities in Mexico because those activities had an effect on U.S. commerce and the defendant purchased parts in the United States that were used to make infringing watches.

The Second Circuit confronted the same issue in Vanity Fair Mills, Inc. v. T. Eaton Co., 234 F.2d 633, 109 U.S.P.Q. (BNA) 438 (2d Cir. 1956). The plaintiff, Vanity Fair Mills, sought extraterritorial Lanham Act remedies against the defendant's Canadian activities. Stressing the Bulova holding, the court outlined three relevant factors in determining the Lanham Act's extraterritorial application: (1) whether defendant's conduct has a substantial effect on U.S. commerce; (2) whether the defendant is a U.S. citizen; and (3) whether

there was no conflict with trademark rights established under the foreign law. See Vanity Fair Mills, 234 F.2d at 642. The Vanity Fair Mills court stressed that, "the absence of one of the above factors might well be determinative and that the absence of both is certainly fatal." Id. at 643. In Vanity Fair Mills, the Second Circuit declined to extend the reach of the Lanham Act, finding that Congress did not intend for the Act to apply to "foreign citizens acting under presumably valid trade-marks in a foreign country." Id. Because we must apply the law of the Second Circuit, we review the district court's decision to apply the Lanham Act extraterritorially within the framework set forth in Vanity Fair Mills.

A. Citizenship of the Defendant

There is no dispute as to the trial court's finding that Marlboro is in fact a U.S. citizen. Admittedly this may subject Marlboro to the court's "considerable authority to regulate any foreign activity." Bulova, 344 U.S. at 283-87. However, one is cautioned against finding an extraterritorial reach of the Lanham Act from any single factor. See Warnaco Inc. v. VF Corp., 844 F. Supp. 940, 950 (S.D.N.Y. 1994). This is the very reason that the Second Circuit balances all three factors to determine whether the "contacts and interest" are sufficient to support the extraterritorial application of the Lanham Act. Id.

B. Conflict with Foreign Laws

The district court noted that Aerogroup had not established superior trademark rights to Marlboro's Canadian business partner, Bata Industries Limited (Bata), and concluded that an application of the Lanham Act to Bata was unjustified. However, the district court failed to conclude there was no

conflict with Canadian trademark law with respect to Marlboro. The district court explained that Marlboro conceded that it had not itself filed for trademark protection in Canada, and concluded that "even if Marlboro could piggyback on Bata's rights, . . . this factor does not clearly weigh either way." The district court therefore failed to properly analyze and weigh this Vanity Fair-Mills factor in support of applying the Lanham Act extraterritorially since it did not actually reach a conclusion on this issue. See generally Calvin Klein, 714 F. Supp. 78; Warnaco, 844 F. Supp. 940.

C. Effect on U.S. Commerce

The trial court correctly dismissed all claims against Bata including whether the Lanham Act applies extraterritorially. The trial court found that Bata's sales did not have a substantial effect on United States commerce. The court specifically noted that the effect of Bata's sales was equivocal, and it similarly found that the effect on United States commerce by Marlboro was equivocal.

The Second Circuit weighs a defendant's activities both within the United States and abroad in determining the effect on United States commerce. Activities conducted abroad that have an effect on United States commerce typically include infringing goods re-entering the United States,[3] likelihood of confusion among purchasers, diversion of sales, and injury to goodwill and reputation. See Bulova, 344 U.S. at 280; Calvin Klein, 714 F. Supp. 78; see generally American Rice Inc. v. Arkansas Rice Growers Coop. Ass'n, 701 F.2d 408, 218 U.S.P.Q. (BNA) 489 (5th Cir. 1983); Les Ballets Trockadero

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[3]In the instant case there was evidence of only one sale in the United States that was induced by Aerogroup's attorney.

de Monte Carlo, Inc. v. Trevino, 945 F. Supp. 563, 41 U.S.P.Q.2D (BNA) 1109 (S.D.N.Y. 1996). Actions within the United States having an effect on U.S. commerce typically include the manufacture of infringing goods, affixing labels, packaging, and even shipment through a foreign trade zone. See Supply Mfg. Co. v. King Trimmings, Inc., 220 F. Supp. 947, 139 U.S.P.Q. (BNA) 163 (S.D.N.Y. 1963); see generally Ocean Garden, Inc. v. Marktrade Co., 953 F.2d 500, 21 U.S.P.Q.2D (BNA) 1493 (9th Cir. 1991); Scotch Whisky Ass'n v. Barton Distilling Co., 489 F.2d 809, 179 U.S.P.Q. (BNA) 712 (7th Cir. 1973).

In order to determine the impact of Marlboro's actions on U.S. commerce we need to analyze the role Marlboro had in the Canadian transactions. The district court found that, as a buying agent, Marlboro arranges for the foreign production of shoes for its Canadian clients. The record shows that Marlboro placed orders for the manufacture of the infringing shoes with a Taiwanese factory that manufactured the shoes abroad and shipped them directly to Canada. Marlboro was paid a commission based on the factory cost per pair of shoes. This is the extent of Marlboro's activities abroad.

Although the district court found that Marlboro's sales in Canada were not de minimis, it failed to make a finding that the sales were substantial. There certainly is a difference between sales that are not de minimis and sales that are substantial. Such a differentiation has been made in other circuits when determining the effects on United States commerce. See American Rice, 701 F.2d at 414 (finding that packaging and shipping of goods combined with diverted sales constituted "some" effect). Activities that fall between de minimis and substantial are in conflict with Vanity Fair Mills. See Totalplan Corp. v. Colborne, 14 F.3d 824, 830, 29 U.S.P.Q.2D (BNA) 1740, 1744 (2d Cir. 1994) (finding that

American Rice was in conflict with Vanity Fair Mills since it rejected a substantial effect standard for a more lenient "some effect" standard).

The effect on U.S. commerce due to Marlboro's activities should not be calculated based on the total retail value of the shoes sold in Canada but rather on the amount of the commission received for brokering the sale. With respect to the infringing shoes sold in Canada, the retail value was approximately $ 500,000, but the commission paid to Marlboro was only $43,757.18. This minor interference with U.S. commerce is not substantial, especially when such amounts are unaccompanied by additional conduct. It is on this point I disagree with the majority. The sales in Canada affect only Canadian commerce, and therefore the only possible effect on U.S. commerce is the lost commission.

In short, the evidence does not disclose a substantial effect on U.S. commerce as required by Vanity Fair Mills. Two out of the three Vanity Fair Mills factors have not been found. The district court erroneously uses the single factor of citizenship to satisfy not only the citizenship requirement, but also to satisfy the requirement of a substantial effect on U.S. commerce. The district court essentially looked at Marlboro's activities within the United States and relied, "in significant part on the fact that Marlboro conducted its business almost exclusively within the United States and used the instrumentalities of American commerce" to conduct its business to find a substantial effect on U.S. commerce. Nearly any corporation found to be a U.S. citizen meets this standard. While the Lanham Act is clearly applied to U.S. corporations conducting significant business within and outside our borders, I can see no reason why using a fax machine, telephone, mail and participating in a trade show within the United States, alone, is sufficient to trigger an extraterritorial application of

the Lanham Act. Conduct of this type is far less than what has been previously required by the Second Circuit. See Calvin Klein, 714 F. Supp. at 78 (relief granted against a U.S. defendant because of lost reputation and goodwill, interference with licensing rights and diverted sales); Warnaco, 844 F. Supp. at 950-51 (relief granted against a U.S. defendant because of lost reputation and goodwill, lost profits, diverted sales and consumer confusion). Marlboro was not found to have manufactured, shipped, packaged, fixed labels, imported, exported or assembled the infringing goods within U.S. borders. I see no reason to conclude that Marlboro's minimal conduct within the United States rises to the level of a "substantial effect."

Because the district court did not properly consider the Vanity Fair Mills factors and failed to make the necessary findings to support an extraterritorial application of the Lanham Act to Marlboro's Canadian activities, I would hold that the Lanham Act cannot be applied to Marlboro's activities in Canada and would reverse the district court on this issue.

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

AEROGROUP INTERNATIONAL, INC.,

Plaintiff,

-v-

MARLBORO FOOTWORKS, LTD., LAURENCE D. KOPLAN, STEVEN GOLDBERG, GREDICO FOOTWEAR LTD., TOWN SHOES LTD., BATA INDUSTRIES LTD, GOLDPORT ENTERPRISES, INC., MARLBORO FOOTWORKS LTD. (TAIWAN), MASATERU UEHARA, FREDERICK ATKINS, INC., WEISS & NEUMAN SHOE CO., MELVILLE CORPORATION, SHOE CARNIVAL, INC., and NATIONAL INDEPENDENT RETAILERS, INC.,

Defendants.

OPINION & ORDER

February 4, 1997, Decided
February 5, 1997, FILED

DISPOSITION: Action dismissed as to Bata.

COUNSEL: APPEARANCES:

For Aerogroup, Int'l, Inc., Plaintiff: Vito R. Vincenti, Bart J. Eagle, Paul J. Vincenti, LAW OFFICES OF VITO R. VINCENTI, P.C., New York, N.Y.

For Bata Industries Ltd., Defendant: William M. Dallas, Jr., Michael J. Bowe, SULLIVAN & CROMWELL, New York, NY. For Marlboro, Defendants: Charles R. Hoffman, A. Thomas Kammer, Alan M. Sack, HOFFMAN & BARON, LLP, Jericho, New York.

JUDGES: Denise Cote, United States District Judge

OPINION BY: Denise Cote

OPINION: OPINION & ORDER

DENISE COTE, District Judge:

Plaintiff Aerogroup International, Inc. ("Aerogroup") has brought this action against Marlboro Footworks Ltd. ("Marlboro"), an American buying agent, and certain of its American and Canadian customers, alleging that the defendants have infringed its intellectual property rights in its Aerosoles shoes. Marlboro and one of its Canadian customers, Bata Industries Ltd. ("Bata"), have moved to dismiss this action insofar as it seeks to reach Canadian sales for lack of subject matter jurisdiction.[4] At issue is the extraterritorial reach of the

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[4] Although described both by the parties and by courts as an issue of subject matter jurisdiction, this issue is more appropriately viewed as whether plaintiff has stated a cause of action. There can be no dispute that this Court has subject matter jurisdiction over any and all claims

Lanham Act and the Patent Act. This Court finds that the Lanham Act applies to Marlboro's actions in Canada, but that it does not provide subject matter jurisdiction over Bata for its Canadian sales.[5] n2 Moreover, this Court holds that Aerogroup's patent claims do not extend to Canadian sales.

I. Background

A. Procedural History

On April 17, 1996, Aerogroup filed this action alleging violations of several provisions of the Lanham Act, 15 U.S.C. §§ 1114(1), 1120, 1125(a), and 1125(c); the Patent Act, 35 U.S.C. § 271; and the Racketeer Influenced and Corrupt Organizations Act, 18 U.S.C. § 1962(c) ("RICO"). Plaintiff also brought various state-law claims.[6] On October 21, 1996,

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brought under the Lanham Act. The issue, rather, is whether the conduct alleged gives rise to a cause of action under the Lanham Act. See Fogel v. Chestnutt, 668 F.2d 100, 105-07 (2d Cir. 1981) (Friendly, J.) (discussing the distinction between dismissal for lack of subject matter jurisdiction and dismissal for failure to state a claim), cert. denied, 459 U.S. 828 (1982).

[5] Aerogroup asserts claims against Bata for false designation or origin, false description, false representation and infringement of trade dress under 15 U.S.C. § 1125(a), trademark infringement under 15 U.S.C. § 1114(1), patent infringement under 35 U.S.C. § 271, and dilution under 15 U.S.C. § 1125(c) -- all federal law claims. Because I find that the Lanham Act and Patent Act do not apply extraterritorially to Bata's actions in Canada, there is no remaining basis for exercising jurisdiction with respect to Bata.

[6] Plaintiff filed an amended Complaint on July 24, 1996. All references to the Complaint in this Opinion and Order apply to the amended

after a hearing on Aerogroup's motion for a preliminary injunction against Marlboro and two individual defendants, Steven Goldberg and Laurence D. Koplan, Aerogroup and these three defendants consented to a conversion of the hearing to a full trial on the merits. Thereafter, in an opinion delivered on the record, this Court granted in part and denied in part Aerogroup's motion. The permanent injunction reflecting this ruling was signed on November 15, 1996. Neither the October 21 Opinion nor the November 15 Order addressed the extraterritorial effect of the Lanham Act on Marlboro's Canadian sales. Instead, the Court invited the parties to address this issue through post-trial submissions, which the parties have done.

Three of the defendants are Canadian customers of Marlboro. On December 24, 1996, this Court granted the motions of defendants Town Shoes and Gredico to dismiss the action against them for lack of personal jurisdiction.[7] Bata, the remaining Canadian defendant, has moved to dismiss the action against it on the grounds of lack of personal jurisdiction and subject matter jurisdiction and pursuant to the doctrine of forum non conveniens. At trial, this Court found that Marlboro had infringed the Aerosoles trademark if American law were to apply to sales of certain shoes by Bata in Canada.

While Aerogroup and Bata have not engaged in discovery, both parties have submitted evidence in connection

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Complaint. Plaintiff has since withdrawn its RICO claim.

[7] At trial, this Court found that if the Lanham Act applied to the Canadian sales, Marlboro had infringed plaintiff's Aerosoles trademark with regard to certain shoes sold through Town Shoes. This Court found no infringement by Marlboro from a single advertisement by Gredico, and no other infringements were alleged as to Gredico.

with Bata's motions. In addition, Aerogroup has had complete discovery of Marlboro, the company through whom Bata ordered the infringing shoes, except for some additional discovery which may be needed to finalize the amount of damages.

B. Aerogroup

Since 1985 Aerogroup (or its predecessor) has designed, manufactured, imported, marketed and sold at wholesale and retail shoes of various types including the Aerosoles shoe. Aerosoles are manufactured in factories throughout Europe and Sri Lanka and sold in large quantities throughout the United States, Canada, and other parts of the world. Aerogroup claims the following intellectual property rights in connection with its Aerosoles shoe: (1) a United States registered trademark which includes the name "Aerosole" in stylized letters with a twisting line underneath that curves back and forth three times ("Aerosoles Trademark"); (2) a United States registered waffle design trademark which includes a "plurality of diamond or rhombic recessed patterns on the sole of a women's" shoe ("Waffle Trademark"); (3) a pending United States trademark which includes the image of a shoe being twisted on a vertical axis to denote flexibility ("Twisted Shoe"); (4) a United States patent on the waffle sole ("Waffle Patent"); and (5) trade dress which includes a combination of the above items of intellectual property.

Aerosoles have been sold in Canada since 1987, and since 1991 the Canadian sales have totaled approximately $ 100 million. Aerosoles are advertised in Canada in magazines, billboards, bus shelters, and point-of-sale advertisements. On April 4, 1991, Aerogroup filed for a Canadian trademark registration for its Aerosoles Trademark, for "footwear namely

women's casual shoes, comfort shoes, non-athletic shoes and fashion sneakers." The mark was registered on June 10, 1994. The Canadian trademark is the same in appearance as the American registration. Earlier, on July 31, 1990, Aerogroup registered a Canadian industrial design patent for a shoe sole with a waffle pattern. The industrial design drawings do not directly correspond to the current configuration of the waffle sole.

C. Marlboro

Marlboro, which was founded in 1987, is a buying agent which arranges for the production of footwear through its agents overseas and sells it to customers in the United States and Canada. The shoe designs Marlboro presents to its customers are frequently "knock offs" of other shoe designs. Since 1994, Marlboro has engaged in an active campaign to "knock off" Aerosoles. With the exception of the sole, however, Aerogroup does not contend that any feature of its shoe designs is protectable. Instead, it has challenged through this lawsuit what it contends are the infringements of its shoe sole and its trade dress. Marlboro is responsible for the design of the sole on its Aerosoles knock offs. With respect to the trade dress for Marlboro's shoes, while customers usually choose to place their own private label names on the shoes they order from Marlboro and also choose the trade dress, such as the design for the shoe box and sock liner label for the shoes, Marlboro designed the principal trade dress of which Aerogroup complains: the stylized use of the name Air Supply.

Marlboro has used the name Air Supply for almost a decade, usually on shoe samples, and occasionally for a shipment of shoes when a customer has chosen to order private label shoes from Marlboro using that name. From

approximately 1993 to January 1996, one Marlboro customer had exclusive use of the name as its private label brand name for shoes. Aerogroup has complained of none of these prior uses.

In 1995, however, Marlboro ordered shoe boxes from its overseas agent with a design for the name Air Supply that knocked off Aerosoles' trade dress. By using Aerosoles-like trade dress to display its knock offs of Aerosoles shoes at the August 1995 Las Vegas shoe show display, Marlboro hoped to draw attention to how close its knock offs were to the original Aerosoles.[8]

In early 1996, after the customer who had had exclusive use of the name Air Supply for several years went out of business, Marlboro allowed its other customers to use the Air Supply trade dress that Marlboro had created to knock off the Aerosoles trade dress. Those customers include Town Shoes, Bata, and Weiss & Neuman, who used this trade dress on the shoe boxes and sock liners for their Aerosoles knock off shoes.

With respect to the sales to Bata, Marlboro placed orders for the shoes with a Taiwanese factory representative who arranged for the manufacture of the shoes in China. The shoes were shipped directly from China to Canada, and Marlboro was paid a commission based on the factory cost per

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[8] The Aerosoles trademark is the word "Aerosoles" in stylized capital letters with a twisting line underneath that curves back and forth three times. The entire mark is written on an angle with the right edge of the word higher than the left. Aerosoles's trade dress includes, among other things, the Aerosoles trademark, which is located on the sock liner of the shoes and on the box. The Air Supply shoes this Court found to be infringing contained the word Air Supply written in a similar script, with an irregular underlining, and placed in the same location on the shoe boxes and sock liner labels.

pair of shoes, an arrangement referred to as first cost basis. When a customer buys shoes on a first cost basis it assumes all of the risks.

Marlboro asserts that it has sold Bata 50,580 pairs of shoes bearing the Air Supply logo in the trade dress which this Court found infringing. The total price of these shoes -- paid directly to the factory by Bata -- is $485,475. Marlboro was paid a commission of $ 41,265.38.[9] As to Marlboro's other Canadian customers, Marlboro sold 2,166 pairs of Air Supply shoes bearing an infringing trade dress to Town Shoes, for which Town Shoes paid the factory $ 14,918, and paid Marlboro $ 1,491.80. Marlboro sold 17,889 pairs of Easy Step shoes to Gredico, for which Gredico paid the factory $ 121,692, and paid Marlboro $ 9,735.36. Aerogroup has not claimed that the trade dress associated with any of the Easy Step shoes infringed its rights. Its sole claim, which the Court rejected insofar as it was made against Marlboro at trial, related to a single magazine advertisement by Gredico.

D. Bata

Bata is incorporated and has its principal place of business in Ontario, Canada. Bata has no offices, employees, property, or bank accounts in the United States. Bata is not

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[9] Marlboro asserts that altogether it has sold Bata 60,080 pairs of Air Supply and Comfort Supply shoes for a total price paid to the factory of $639,016, and total commission to Marlboro of $ 54,316.36.

In its brief, Aerogroup states that "Marlboro sales in Canada to Bata alone were admitted to be at least $ 2.0M" (emphasis added). The evidence Aerogroup cites for this proposition is a Marlboro document which states that "this account keeps growing and growing. We can certainly achieve over 2 million dollars with this account if we can provide them with timely samples" (emphasis added). This evidence reflects a sales target, not an actual sales figure.

licensed to do business in the United States and is not a member of any footwear trade associations in the United States.

The Bata entity which is a defendant in this case has two divisions, the "Retail Division" and the "Norimco Division."[10] The Retail Division, which is the one that sells the allegedly infringing, shoes, operates retail shoe stores which are all located in Canada. The Retail Division has no sales agents in the United States, does not solicit sales in the United States, and earns no revenue from activities in the United States. The Retail Division has not advertised in the United States the "Air Supply" shoes at issue in this case, and has not promoted the shoes anywhere through the mass media, including newspapers, television, and radio.

Until the middle of 1995, the Retail Division bought Aerosoles shoes through Aerogroup's exclusive distributor in Canada. Aerogroup's sales to Bata in 1994 and 1995 averaged 50,000 pairs per year. Bata was "by far" the largest Canadian purchaser of shoes from Aerogroup. Bata's retail sales of Aerosoles during 1994 and 1995 were approximately $ 3 million per year. In early October 1995, Bata ordered an additional 5,760 pairs of shoes for the Spring 1996 season. The wholesale price of these shoes was $ 191,000. In January 1996,

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[10] Bata's Norimco Division manufactures shoes -- primarily "foul-weather" boots -- and sells them to wholesalers in Canada, as well as other countries including the United States. According to Bata, about 1% of Bata's total revenue comes from Norimco's sales to customers in the United States. Bata asserts that its Norimco Division has not been involved in any way with the Retail Division's sale of Aerosoles or Air Supply shoes. The Norimco Division uses two independent sales representatives, one in Wisconsin and the other in New Hampshire, who are paid a commission and represent several other footwear manufacturers. These sales representatives have no authority to bind Norimco to transactions, and once Norimco agrees to sell the merchandise, it is sold FOB Canada.

Bata cancelled all pending orders of Aerosoles shoes. During the Spring 1996 season, Aerosoles knock offs supplied by Marlboro -- which are the subject of this action -- first began appearing in Bata's stores.

According to Bata, some time in 1995 Aerogroup raised its prices to a level at which Bata no longer believed it could sell Aerosoles.[11] Prices were raised in June 1995 from an average of $50.00 Canadian to $ 80.00 Canadian. According to Bata, it attempted to sell Aerosoles at the new higher price, but was unable to do so, and therefore stopped buying from Aerogroup. In August 1995, Bata saw Marlboro's Air Supply shoes at the Las Vegas shoe show, and thereafter purchased shoes from Marlboro. Bata has never sold the Air Supply shoes in the United States.[12]

In October 1995, Bata applied for a Canadian trademark registration for the Air Supply name, and that application is currently pending. Aerogroup has not filed an objection to that application. In September 1996, Bata applied for a Canadian trademark registration for the design on its Air Supply shoe soles.

In house counsel for Bata filed an affidavit indicating in conclusory terms that Aerogroup's Aerosoles Trademark is "open to serious question under Canadian trademark law" because Aerogroup did not file a "registered user notice" to

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[11] Bata claims that because the Air Supply shoes sell in a lower-priced market than do Aerosoles, Aerogroup has not lost any profits due to Bata's sale of Air Supply shoes.

[12] Aerogroup asserts that several of the Bata stores -- those located in Vancouver, Toronto, and Montreal -- are close to the United States border, and that these stores are "most likely" frequented by U.S. residents who "obviously" shop for clothes and shoes in Canada.

appoint the Indeka Group, Aerogroup's Canadian distributor, as the mark's registered user in Canada and because the trademark has not been used in Canada in the same form in which it has been registered. In addition, the attorney states without further explanation that Aerogroup has no enforceable trademark rights in Canada in the waffle sole design. Finally, the attorney argues that Aerogroup's industrial design registration for its waffle sole is also "open to serious question" because it was not registered within one year of its first use, and also because Aerogroup has not complied with Canadian law because it has failed to stamp its waffle soles with an "RD" and other required information.

Another Canadian attorney, who filed an affidavit on behalf of Aerogroup, opined that if this Court were to enforce Aerogroup's trademark rights under United States law, it would not conflict with Canadian law. Moreover, he stated that Bata's pending registration of the name "Air Supply" would not give Bata any rights to use Air Supply in stylized lettering, which is the use for which Aerogroup is bringing this action. He states that because Bata uses a "registered" symbol with its Air Supply name, it is engaging in false advertising under Canadian law because such a designation can only be used for a registered trademark.

The attorney also gives his opinion that Bata's Air Supply logo with stylized script and a red swoosh underlining constitutes an infringement under Canadian law of the Aerosoles Canadian trademark. In addition, the lawyer opines that Canadian law and United States law are "virtually identical" with respect to whether Bata's design for the Air Supply name infringes the Aerosoles trademark. Furthermore, the lawyer states that it is his opinion that Bata's sole design violates Aerogroup's trademark rights in the Aerosoles waffle sole design. Again, the affidavit indicates that Canadian law as

to the waffle sole design trademark is "virtually identical" to United States law.

Aerogroup's Canadian lawyer also disputes Bata's lawyer's conclusion that the Aerosoles Canadian trademark is invalid under the "registered user notice" requirement because Indeka is selling the shoes in Canada rather than Aerogroup. He contends that the law regarding this issue changed in 1993. Finally, he notes that the differences between the registered Aerosoles Trademark and the trademark in use are so slight as to be immaterial.

Aerogroup also submitted an affidavit from Laura D. Viola, who is identified only as "a resident of Flushing, New York." She states that on May 29, 1996, she telephoned a Bata shoe store in Canada and requested that it send her a pair of Air Supply shoes. She sent the store a check, and it mailed her the shoes in New York. The affidavit does not indicate how she learned that a Bata store in Canada carried the type of shoe she requested, what prompted her to make this request, or what her relationship is, if any, to Aerogroup. In response to this Court's inquiry, Aerogroup admitted that its counsel asked Ms. Viola to place this call.

II. Discussion

A. Lanham Act Claims

The "usual rule" is that a sale of trademark-infringing merchandise that occurs in Canada will be governed by Canadian law, not United States law. This is true because, among other reasons, principles of international comity and the general principles of tort law -- which ordinarily give jurisdiction in an infringement and unfair competition case at the place where the passing off occurs -- dictate that each

nation grant and control the exercise of trademark rights within its own borders. See Vanity Fair Mills, Inc. v. T. Eaton Co., 234 F.2d 633, 639 (2d Cir.), cert. denied, 352 U.S. 871, 1 L. Ed. 2d 76, 77 S. Ct. 96 (1956).

The exercise of Lanham Act extraterritorial jurisdiction is governed by the Second Circuit's decision in Vanity Fair Mills. In Vanity Fair Mills, the Court of Appeals addressed the issue whether the Lanham Act provides relief in American courts against acts of unfair competition committed "in foreign countries by foreign nationals." 234 F.2d at 640. It was uncontested in Vanity Fair Mills that the United States court had personal jurisdiction over the foreign defendant. Id. at 636. The Second Circuit was guided in its analysis by the Supreme Court's decision in Steele v. Bulova Watch Co., 344 U.S. 280, 97 L. Ed. 319, 73 S. Ct. 252 (1952), which addressed the extraterritorial effect of the Lanham Act on acts by a United States citizen in Mexico. In that context, the Supreme Court stressed the following factors for determining the extraterritorial effect of the Lanham Act: (1) that the defendant's conduct had a substantial effect on United States commerce; (2) that the defendant is a United States citizen and thus subject to this country's "broad power to regulate the conduct of its citizens in foreign countries"; and (3) that no conflict with trademark rights established under foreign law existed. Vanity Fair Mills, 234 F.2d at 642.[13]

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[13] Aerogroup cites Sterling Drug, Inc. v. Bayer AG, 14 F.3d 733 (2d Cir. 1994) for the proposition that this Court should not "strictly" apply these Vanity Fair Mills factors in this case. Aerogroup argues that it is not seeking an absolute bar against the use of the name "Air Supply" in Canada, and that therefore Sterling Drug's willingness to forego a "stringent" application of the Vanity Fair Mills test should guide this Court's analysis. See id. at 746. This is a misreading of Sterling Drug. There, the Second Circuit dealt with an injunction which was tailored only to reach the infringing uses of the mark "Bayer" which were "likely

In the Second Circuit's view, the Supreme Court's finding that there was extraterritorial effect for the statute was deeply rooted in this nation's power to control the conduct of its citizens, when it can do so without impinging on the rights "of other nations or their nationals." This being so, it opined that the absence of one of the other factors (that is, factors one or three as listed above) "might well be determinative and . . . the absence of both is certainly fatal" to applying the Lanham Act to a citizen's activities abroad. Id. at 643.

Applying this analysis to the facts before it, the Second Circuit in Vanity Fair Mills refused to extend the Lanham Act to acts of a Canadian company in Canada acting under a presumably valid trademark registration in that country even where there was a substantial impact on American commerce from the defendant's activities. Id. at 643. As a result of this holding, the Second Circuit did not reach the issue of whether the Commerce Clause in the Constitution would permit the Lanham Act to reach acts of foreign nationals abroad that have a substantial effect on United States commerce. Id. at 641-42.

In two cases since Vanity Fair Mills the Second Circuit has had occasion to address again the extraterritorial application of the Lanham Act. In Sterling Drug, Inc. v. Bayer AG, 14 F.3d 733, 746 (2d Cir. 1994), the Second Circuit applied the Lanham Act to the conduct of a foreign defendant abroad only insofar as such use of the infringing mark was "likely to make [its] way to American consumers." In Totalplan Corp. v. Colborne, 14 F.3d 824, 830-31 (2d Cir. 1994), the

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to make their way to American consumers." Id. Here, however, Aerogroup is concerned with use of an allegedly infringing mark in Canada -- its request for an injunction is not limited to those uses in Canada likely to make their way back to the United States.

court declined to extend the Lanham Act to a foreign defendant's sales of goods abroad, even when those goods had been shipped through, and labelled with the allegedly infringing name in, the United States and there was no question that the court had personal jurisdiction over the defendants. Weighing against exercise of jurisdiction were the facts that the defendants were not citizens and that there was no substantial effect on United States commerce, as judged against the fact that the infringing goods had not reentered the United States to cause confusion among United States consumers and no foreign sales by the American plaintiff had been diverted. Id.

Discussion of only one other Second Circuit case is necessary to set the framework for the analysis which will follow. Prior to the Supreme Court's decision in Bulova, the Second Circuit had occasion to address the extraterritorial effect of the federal 1905 Trade-Mark Act over the activities of United States residents in selling American-manufactured goods abroad. See George W. Luft Co. v. Zande Cosmetic Co., 142 F.2d 536 (2d Cir.), cert. denied, 323 U.S. 756, 89 L. Ed. 606, 65 S. Ct. 90 (1944). Since in Bulova the Supreme Court relied on Luft in analyzing the extraterritorial question presented to it, Bulova, 344 U.S. at 286-87, it remains appropriate to consider Luft's teaching. See Totalplan, 14 F.3d at 831. In Luft the Second Circuit found it appropriate to enjoin defendants' activities in the United States which would result in sales in countries abroad where the plaintiff is doing business and the defendants had not established superior trademark rights under local law, but not in countries where the plaintiff was not engaged in business or where the defendants had established trademark rights. Luft, 142 F.2d at 540-41.

As this precedent indicates, the citizenship of the defendant is the most significant factor in determining whether to apply the Lanham Act extraterritorially to a defendant's

foreign activities. Consequently, courts have been reluctant to extend the reach of the Lanham Act to actions of foreign defendants taken abroad. Indeed, Aerogroup cites only three cases within the Second Circuit in which subject matter jurisdiction was found over a foreign defendant, and in each of these cases the foreign defendant's activities in this country strongly supported the exercise of jurisdiction.

In Sterling Drug, as noted above, the injunction was restricted to conduct occurring abroad that was likely to cause a mark to be used within the United States in a way that would confuse American consumers. Sterling Drug, 14 F.3d at 746. In Warnaco Inc. v. VF Corp., 844 F. Supp. 940 (S.D.N.Y. 1994), the foreign defendant had settled a foreign lawsuit by entering into an agreement with the American plaintiff in which it agreed, among other things, to submit itself to the jurisdiction of a New York federal court. Thereafter, the plaintiff filed suit in this Court alleging that the foreign defendant had breached that agreement by taking steps that weakened the plaintiff's business in the Iberian Peninsula and caused confusion among Spanish and Portuguese consumers. The foreign defendant was a wholly owned subsidiary of the plaintiff's primary competitor, who was also named as a defendant in the New York action. Id. at 952. Finally, in King v. Allied Vision, Ltd., 807 F. Supp. 300 (S.D.N.Y.), aff'd in part, rev'd in part, 976 F.2d 824 (2d Cir. 1992) (finding appeal of extraterritorial injunction "without merit"), a foreign defendant obtained the foreign distribution rights to an American film which the credits alleged was based on the Stephen King short story "The Lawnmower Man." The agreement at issue, which the foreign defendant had entered through its American agent, was governed by California law. The defendants ignored King's request to remove all attribution to him: as the court found, the film was not based either wholly or substantially on his short story. The court held that the foreign defendant had sufficient

contacts with the United States to support an extraterritorial injunction, relying specifically on the false attribution having occurred in the United States and the defendant's American contract. Id. at 307.[14]

Thus, when a plaintiff has sought to extend the Lanham Act to the foreign activities of foreign defendants, courts have scrutinized with care the nexus between the foreign defendant's activities within the United States and the conduct giving rise to the Lanham Act claims.[15] In effect, courts have analyzed

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[14] In reaching its conclusion the court in King relied on both Vanity Fair Mills and the Fifth Circuit's decision in American Rice, Inc. v. Arkansas Rice Growers, 701 F.2d 408 (5th Cir. 1983), on which plaintiff also relies. American Rice, however, as was made clear in this Circuit's decision in Totalplan, contains a lower standard for exercise of extraterritorial injunctive relief than that which governs within the Second Circuit. Totalplan, 14 F.3d at 830.

[15] Outside of the Second Circuit, all but one of the cases cited by Aerogroup in which a court issued an injunction with extraterritorial effect involve (1) either entirely American defendants, or the primary defendants are American citizens or U.S. corporations, and (2) substantial conduct within the United States. See, e.g., Levi Strauss & Co. v. Sunrise Int'l Trading Inc., 51 F.3d 982, 985 (11th Cir. 1995) (noting that "some or all of the corporate defendants are United States corporations" and "all of the individual defendants are United States residents"; some of the counterfeit goods were shipped through the United States); Babbit Elec., Inc. v. Dynascan Corp., 38 F.3d 1161, 1179-80 (11th Cir. 1994) (primary corporate defendant U.S. corporation; goods shipped through U.S. free trade zone); Ramirez & Feraud Chili Co. v. Las Palmas Food Co., 146 F. Supp. 594, 599-601 (S.D. Cal. 1956) (primary defendants U.S. citizens; remaining defendant a U.S. resident; counterfeit goods reentering the United States), aff'd, 245 F.2d 874 (9th Cir. 1957), cert. denied, 355 U.S. 927, 2 L. Ed. 2d 357, 78 S. Ct. 384 (1958).

In Wells Fargo & Co. v. Wells Fargo Express Co., 556 F.2d 406 (9th Cir. 1977), the principal defendant was a Liechtenstein corporation,

whether through their actions either within the United States or that are directed at the United States it is appropriate to hold a foreign defendant to the requirements of American law. While such an analysis of contacts may appear to be similar to an analysis of personal jurisdiction, which is ultimately concerned with issues of fair play and substantial justice, International Shoe Co. v. Washington, 326 U.S. 310, 316, 90 L. Ed. 95, 66 S. Ct. 154 (1945), here the focus is on the existence of a basis to find jurisdiction to extend federal law to a foreigner's activities outside this country when issues of international comity and principles governing tort liability have traditionally restricted the reach of that law to this country's borders.

Requiring such a nexus in the case of a foreign defendant is not inconsistent with Vanity Fair Mills. The three-part analysis that Vanity Fair Mills extracted from Bulova was, as noted above, originally developed to analyze whether foreign sales by an American citizen were within the reach of the Lanham Act. Subsequently -- and perhaps reflexively -- that same test has been applied to foreign sales by non-citizen defendants. Nonetheless, courts have only applied the Lanham Act to the foreign sales of foreign defendants where special circumstances exist, wholly apart from any analysis of whether

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and the other defendant was its U.S. subsidiary. This case is of little help to Aerogroup, however. First, the court refused to decide whether the Lanham Act applied extraterritorially under the facts before the court, and remanded the case to the district court in light of recent Ninth Circuit precedent which had not been before the district court. Second, the court declined to employ the "substantial" effects test adopted by the Second Circuit, opting for the more expansive "some" effects test, id. at 428, which, as already noted, has expressly been rejected by the Second Circuit. See also Nintendo of Am., Inc. v. Aeropower Co., Ltd., 34 F.3d 246, 251 (4th Cir. 1994) (vacating injunction against foreign defendant's conduct abroad that had a significant impact on United States commerce for failure to consider, inter alia, the defendant's citizenship).

there has been a substantial effect on United States commerce or whether there is a potential conflict with foreign trademark law. Those special circumstances have included, as described above, an examination of the nexus between the foreign defendant's allegedly infringing conduct and its activities within or directed at this country.[16]

Turning to the prong of Vanity Fair Mills which requires a finding of substantial effect on United States commerce, the Second Circuit has recently reaffirmed that there must be a "substantial" effect -- not merely "some" effect. See Totalplan Corp., 14 F.3d at 830; Sterling Drug, 14 F.3d at 746. See also United States v. Lopez, 514 U.S. 549, 131 L. Ed. 2d 626, 115 S. Ct. 1624, 1629-30 (1995) (Congress' commerce

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[16] The analysis described here is similar to the Second Circuit's "conduct" test for analyzing the extraterritorial jurisdiction of the securities laws, which like the Lanham Act are silent on the issue of extraterritorial reach.

> Under the conduct test, a federal court has subject matter jurisdiction if (1) the defendant's activities in the United States were more than "merely preparatory" to a securities fraud conducted elsewhere, . . . and (2) these activities or culpable failures to act within the United States "directly caused" the claimed losses . . . .

Itoba Ltd. v. LEP Group PLC, 54 F.3d 118, 122 (2d Cir. 1995), cert. denied, 116 S. Ct. 702 (1996). The securities laws, however, allow for jurisdiction to be found over activities under either a conduct test or an effects test, although a "combination of the two often gives a better picture of whether there is sufficient United States involvement to justify exercise of jurisdiction by an American court." Id. See also North South Finance Corp. v. Al-Turki, 100 F.3d 1046 (2d Cir. 1996) (discussing extraterritorial reach of the securities and antitrust laws in the course of the "delicate" task of deciding the extraterritorial reach of the RICO statute); Sterling Drug, 14 F.3d at 746-47 (international comity of greater concern in the extraterritorial application of the Lanham Act than of antitrust laws).

authority includes the power to regulate those activities having a "substantial" effect on interstate commerce.).[17] Since a primary goal of the Lanham Act is the protection of American consumers against confusion, a substantial effect on commerce may be found where the foreign activities create confusion among United States customers as to the source of products sold in the United States, Sterling Drug, 14 F.3d at 747, or where infringing goods reenter the United States. Bulova, 344 U.S. at 286. Courts must be careful, however, not to find a substantial effect from relatively minor interferences with United States commerce. As the Second Circuit cautioned:

> In today's global economy, where a foreign TV advertisement might be available by satellite to U.S. households, not every activity of a foreign corporation with any tendency to create some confusion among American consumers can be prohibited by the extraterritorial reach of a District Court's injunction.

Sterling Drug, 14 F.3d at 747. Courts in this district have also found a substantial effect on commerce where an American plaintiff's foreign sales have been diverted, see, e.g., Warnaco, 844 F. Supp. at 951 (loss of over $ 6 million in sales); and where there is danger of irreparable injury to a plaintiff's good will and reputation. Warnaco, 844 F. Supp. at 945, 951; Calvin Klein Indus., Inc. v. BFK Hong Kong, Ltd., 714 F. Supp. 78, 80 (S.D.N.Y. 1989) (threatened sale of inferior goods bearing Calvin Klein label).

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[17] As noted above, the Second Circuit's requirement of a "substantial" effect on United States commerce distinguishes cases such as the Fifth Circuit's decision in American Rice, which only require "some" effect. See Totalplan, 14 F.3d at 830 (rejecting American Rice's "some" effect on commerce test, and confirming "substantial" effect test).

The third Vanity Fair Mills factor, whether there is a conflict with foreign trademark rights, is related to the international law and conflicts of law doctrines of comity. Courts in the United States should avoid deciding cases where "the exercise of such power is fraught with possibilities of discord and conflict with the authorities of another country." Vanity Fair Mills, 234 F.2d at 647.

One method by which a conflict with foreign trademark law may be found -- as was the case in Vanity Fair Mills -- is where the defendant is operating under a presumptively valid trademark in its home country. Where appropriate, even a pending application for a trademark is sufficient to find the existence of rights under foreign law. In American White Cross Labs., Inc. v. H.M. Cote, Inc., 556 F. Supp. 753 (S.D.N.Y. 1983), the defendant had applied for a trademark in Canada, the plaintiff had not filed an objection, and the Canadian authorities had previously rejected an earlier objection by plaintiff to another application similar to plaintiff's mark. Id. at 757-58. Under these circumstances, the court found that the fact that the defendant had merely applied for a trademark was sufficient to satisfy this prong of the Vanity Fair Mills test. Id. On the other hand, in Les Ballets Trockadero De Monte Carlo, Inc. v. Trevino, 945 F. Supp. 563, 567-68 (S.D.N.Y. 1996), the court found no conflict with Japanese law where an expert's uncontradicted testimony indicated that a mere application affords no protection in Japan and that because plaintiff's mark was the first to be used, defendant's application, which was being challenged, was unlikely to be granted.

1. Marlboro

Plaintiff seeks to enjoin the activities of Marlboro that have led to sales of infringing shoes in Canada and to obtain damages from Marlboro for those sales. Since Marlboro is a United States citizen, this Court possesses considerable

authority to regulate any foreign activities in which Marlboro may engage. In this regard, it is significant that Marlboro's activities are conducted almost exclusively in the United States and that it engaged in the same infringing activities in the United States regardless of whether its customers were American or Canadian. It solicited these customers at shoe shows in the United States, used the same factories for the manufacturing of the shoes, offered its American and Canadian customers the same shoe styles, and was paid by both American and Canadian customers on a commission basis. Marlboro solicited sales of its Aerosoles knock offs by praising the high quality of the knock offs -- that is, their ability to confuse customers. Accordingly, this selling point worked to Marlboro's advantage wherever in the world Aerosoles are sold -- including Canada. From Marlboro's perspective, it was blind to national borders, and used the same methods and the same systems of operation to sell shoes and infringe Aerogroup's trademark rights in both Canada and the United States.

The evidence regarding any substantial effect on United States commerce is equivocal. Aerogroup argues that its foreign sales have been diverted. Marlboro's activities have resulted in purchases in Canada of over $ 500,000 worth of shoes which have been sold with a trade dress that would have infringed Aerogroup's intellectual property rights if used in the United States. Aerogroup lost its largest Canadian customer, who had $ 3,000,000 worth of retail sales of Aerosoles per year and who cancelled $ 191,000 worth of orders of Aerosoles and replaced the order with Marlboro knock offs. While these figures are not de minimis, they do not approach the multimillion dollar figure of diverted sales in Warnaco. I am prepared to find, however, that the extent of Bata's infringing sales would have been much greater but for Aerogroup's prompt action in filing this lawsuit.

Marlboro argues that the plaintiff's sales were not diverted through the sales of Air Supply knock offs since Aerosoles are sold in a different market. While the Aerosoles and Air Supply shoes are sold in different sub-markets and are not in direct competition with each other, they are in the same broad market and are in sufficiently competing markets to support a finding of trademark infringement under American law. Nonetheless, there is evidence that Aerogroup lost its largest Canadian customer because it had raised its prices, and not solely or even principally because Marlboro had entered the market with an infringing trade dress for its Aerosoles knock offs.

Turning to Aerogroup's contention that Marlboro's activities injured its reputation, this issue is complicated by Aerogroup's practice of knocking off the Aerosoles design and trade dress for its own private label customers, as described in the Court's Opinion of October 21, 1996. To the extent Aerogroup followed this practice in Canada, it undercuts any claim of injury by others to its reputation. Finally, there is no evidence that American consumers have been the targets of the alleged misuse in Canada of the Aerosoles trade dress.

On balance, I find that the effect on American commerce is substantial. In making this finding, I rely in significant part on the fact that Marlboro conducted its business almost exclusively within the United States and used the instrumentalities of American commerce to profit at Aerogroup's expense without regard to where the sales of shoes ultimately occurred or whether those sales violated American law.

As for the existence of any conflict with Canadian trademark law, Marlboro concedes that it has not filed for registration of the Air Supply trademark in Canada. Rather, Bata has filed the application. In any event, even if Marlboro

could piggyback on Bata's rights, as will be discussed below, this factor does not clearly weigh either way in my ultimate determination.

In sum, I hold that the Lanham Act applies extraterritorially to Marlboro's sales in Canada. Consequently, the terms of the November 15 Injunction are extended to cover Marlboro's infringing actions which take place in Canada. Moreover, damages will be assessed against Marlboro for those sales of Air Supply shoes to Bata and Town Shoes that have been found to bear a trade dress that infringes Aerogroup's rights under the Lanham Act.

2. Bata

It is not disputed that Bata is a citizen of Canada. It has no offices in the United States and its contacts with the United States are sufficiently tenuous that finding personal jurisdiction would appear to be at the very least a complicated enterprise.

Aerogroup argues that this Court should ignore Bata's foreign citizenshipsince the principal defendants in this action are United States citizens. This argument might be persuasive if Bata were related to one of the other corporate defendants. It is not.

Insofar as the shoes at issue here are concerned, Bata's contacts with the United States are limited to attending trade shows in the United States and placing its orders for the shoes through Marlboro, an American company. The shoes themselves were manufactured abroad, shipped directly to Canada, and sold exclusively in Canada.[18] Placing orders

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[18] This Court ignores, as it must, the attempt by Aerogroup's counsel to manufacture jurisdiction by arranging for a New Yorker to order a pair

through an American company for foreign manufactured goods which, for the sake of this analysis, are presumed to compete abroad with the goods of another American company does not establish a sufficient nexus to allow this Court to extend the reach of the Lanham Act to the foreign company's foreign sales.

Moreover, as noted above in connection with the discussion of Marlboro, the evidence regarding any substantial effect that Bata's sales have on United States commerce is equivocal unless one can consider the additional facts that were present in the case of Marlboro.[19] There are no such additional pertinent facts to tip the scales against Bata, though. I cannot find, therefore, that Bata's sales have had a substantial effect on United States commerce.[20]

Turning to the issue of any conflict with Canadian law, Aerogroup has registered its Aerosoles Trademark in Canada and Bata has applied for registration of the name Air Supply,

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of shoes from Bata. There is no evidence that Bata itself has taken any steps to solicit business from American consumers.

[19] Since almost all of Marlboro's Canadian sales of shoes with an infringing trade dress are sales to Bata, the analysis of the substantial effect of such sales on American commerce must be the same except to the extent there are relevant facts unique to either defendant.

[20] Aerogroup argues that all of the actions of Marlboro of which plaintiff complains are attributable to Bata for jurisdictional purposes. It is simple agency law tha t the principal is only liable for the actions of its agent when those actions are within the scope of the agency relationship and for the benefit of the principal. All of Marlboro's actions with respect to all of the shoes sold in this case -- such as those shoes sold by other defendants in the United States -- are not attributable to Bata because these actions were not undertaken within the scope of the agency relationship between Marlboro and Bata and they were not for the benefit of Bata.

although not in the form that imitates the Aerosoles Trademark. Bata has raised issues about the enforceability of the Aerosoles Trademark. Applying the analysis in Luft, this case is not one in which the plaintiff has clearly established superior rights abroad in its trademark. The affidavits on foreign law presented by the parties are largely conclusory and do not provide significant guidance to this Court. While the questions in this area are not sufficient by themselves to deny Aerogroup the protections of the Lanham Act in an action against Bata, they are sufficient to increase this Court's caution in exercising jurisdiction over matters more appropriately left to Canadian courts. Accordingly, there is no subject matter jurisdiction as to Aerogroup's Lanham Act claims against Bata.

B. Patent Claims

Bata also challenges subject matter jurisdiction with respect to Aerogroup's patent claims, noting that 35 U.S.C. § 271(a) by its terms refers to selling a patented invention "within the United States." Aerogroup does not challenge this interpretation of Section 271(a), but rather cites without significant discussion 35 U.S.C. § 271(f)(1) in support of the extraterritorial reach of its patent claims. Section 271(f)(1) states that:

> Whosoever without authority supplies or causes to be supplied in or from the United States all or a substantial portion of the components of a patented invention, where such components are uncombined in whole or in part, in such manner as to actively [*232] induce the combination of such components outside of the United States in a manner that would infringe the patent if

> such combination occurred within the United States, shall be liable as an infringer.

35 U.S.C. § 271(a)(1). This is a frivolous argument. First, the language of this section by its terms does not apply to the patent at issue here, which has no "component parts" but is rather a design patent for a shoe sole. Second, Aerogroup nowhere alleges that any of the allegedly infringing waffle soles -- or any component thereof -- were supplied from the United States. In fact, it is uncontested that the shoes at issue in this case were manufactured entirely in China. Indeed, at least one court in this District has suggested that Section 271(f)(1) requires that the components be manufactured or assembled in the United States. See Windsurfing Int'l, Inc. v. Fred Ostermann GmbH, 668 F. Supp. 812, 820-21 (S.D.N.Y. 1987), aff'd, 1 F.3d 1214 (Fed. Cir. 1993). Finally, if this Court were to give such a broad interpretation to Section 271(f)(1), that would read out of existence Section 271(a)'s textual limitation to infringing sales within the United States. Rather than a blanket change in Section 271(a)'s narrow, territorial reach, Section 271(f)(1) is a specific and targeted exception to the fact that the patent protection generally extends only within the United States. Accordingly, there is no subject matter jurisdiction as to the patent claims to the extent they encompass violations of the patent outside of the United States.

III. Conclusion

In sum, I find that there is no subject matter jurisdiction for either the Lanham Act or Patent Act claims against Bata, and therefore, dismiss the action as to Bata. As to Marlboro's actions in Canada, I find that there is subject matter jurisdiction for the Lanham Act claims but not the patent law claims. This

Court's Opinion of October 21, 1996 and Order of November 15, 1996 are modified accordingly.

SO ORDERED:

Dated: New York, New York
February 4, 1997

S/Denise Cote
Denise Cote
United States District Judge

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

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AEROGROUP INTERNATIONAL, INC.

Plaintiff,

v.

MARLBORO FOOTWORKS, LTD., et al.,

Defendants.

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DECISION
96 Civ. 2717 (DLC)
Preliminary Injunction
Hearing

October 21, 1996
9:30 a.m.

Before:

HON. DENISE COTE
District Judge
APPEARANCES
LAW OFFICES OF VITO R. VINCENTI, P.C.
Attorneys for Plaintiff
VICTOR VINCENTI
PAUL J. VINCENTI
BART S. EAGLE
Of counsel

HOFFMAN & BARON
Attorneys for Defendants Marlboro Footworks, Goldberg, Goldport, Koplan, Shoe Carnival, Melville, and National Independent Retailers
CHARLES R. HOFFMAN
A. THOMAS KAMMER
ALAN M. SACK
Of counsel

GOLENBOCK, EISEMAN, ASSOR & BELL
Attorneys for Defendants Marlboro Footworks, Goldberg, Goldport, Koplan, Shoe Carnival, Melville, and National Independent Retailers
MARTIN S. HYMAN
Of counsel

DECISION

Plaintiff, Aerogroup International, Inc., who I will refer to as "Aerogroup," brings this action for a preliminary injunction and now, with consent, for a permanent injunction under the federal Lanham Act and NewYork statutory and common law, against Marlboro Footworks, Ltd., Laurence D. Koplan, and Steven Goldberg, who I will refer to as "the Marlboro defendants."

Aerogroup alleges that the Marlboro defendants are liable for trademark infringement under 15 U.S.C § 1114(1), trade dress infringement under 15 U.S.C § 1125(a), dilution under 15 U.S.C §1125(c), New York General Business Law § 368-d, and unfair competition under NewYork common law. Aerogroup seeks to enjoin the Marlboro defendants from utilizing trademarks and trade dress similar to that of Aerogroup.

For the reasons set forth below, Aerogroup's request for a permanent injunction is granted in part and denied in part.

I. Background

A. Procedural History

Aerogroup filed its complaint against Marlboro defendants, Gredico Footwear Ltd., and Town Shoes Ltd., on April 17, 1996. On May 2, 1996, this Court signed an order to show cause why a preliminary injunction should not issue against the defendants. Prior to this Court deciding the issue on May 23, 1996, Aerogroup and the Marlboro defendants entered into a

stipulation and order agreeing to a preliminary injunction, which was subsequently endorsed by the Court.

On September 24, 1996, after an application by the Marlboro defendants, this Court vacated the stipulation and order. On September 25, 1996, this Court granted erogroup's request that its prior application for a preliminary injunction be reinstated. On October 15 through 18, 1996, a hearing was held on the preliminary injunction and now, with consent of the parties, on the permanent injunction.

Pursuant to this Court's rules, the direct testimony of all witnesses was presented by affidavit. Witnesses appeared at trial only for cross-examination and redirect testimony. Aerogroup submitted affidavits from Brian Miller, an attorney from Chadbourne & Parke LLP, which represents Aerogroup in a separate trademark and infringement action, and Paul J. Vincenti, an attorney for aerogroup in the instant action. In addition, Aerogroup submitted excerpts from the deposition testimony of Michael Alan, a Marlboro salesman, and Laurence Koplan, president of Marlboro.

Finally, Aerogroup submitted affidavits from Richard Olicker; vice president of Aerogroup and head of its first cost division. Brian Craig, vice president of marketing for Aerogroup; Richard Danderline, vice president and treasurer of Aerogroup; Stephen Johnson, footwear buyer for J. Baker Inc. and JBI Inc.; Jules Z. Schneider, president of Aerogroup; Holly Schmidt, manager of three Aerosoles retail stores in Georgia and Alabama; Maureen Fitzgerald, national sales manager of The Indeka Group, which is the exclusive distributor of Aerosoles in Canada; Andrew Orchard, national sales manager for The Indeka Group; Michael W. Long, president of Footloose, Inc., which is the exclusive sales

representative for Aerogroup in the southeast United States; Alan Randall Austin, sales representative for Aerosoles in the southeast region of the United States, Jeffrey Jacobsen, shareholder in companies which sell Aerosoles shoes in Kansas, Missouri, and Nebraska; Jody Kjersem, owner of Cavanagh's Fashions, a retail store in Canada which sells Aerosoles; and Olga Mendoza, secretary for Aerogroup's law firm.

The Marlboro defendants submitted deposition excerpts of Richard Danderline, Jules Z. Schneider, and Michael Alan, and affidavits from Laurence D. Koplan, president of Marlboro, and Steven Alan Goldberg of Goldport Enterprises, who is an independent contractor working with Malboro.

At the hearing on October 15th through 18th, the following witnesses were subject to cross-examination: Stephen Johnson, Brian A. Miller, Richard G. Danderline, Jules Z. Schneider, Michael W. Long, Alan Randall Austin, Jeffrey Jacobsen, Maureen Fitzgerald, Olga Mendoza, Brian Craig, Richard Olicker, Laurence D. Koplan, and Jody Kjersem.

Based on the testimony provided at trial and the exhibits admitted into evidence, following are the Court's findings of fact and conclusions of law.

B. Factual Background

1. Aerogroup International, Inc.

Aerogroup was founded in 1987 when it purchased the What's What division of Kenneth Cole Productions, Inc. Aerogroup is engaged in the design, production, importation, distribution, marketing and sale of lightweight flexible footwear. It works with agents overseas to manufacture the footwear. It considers its shoes to be "comfort fashion

footwear," with a dressier appearance than many other comfort and athletic shoes. At the first the name "Aerosoles" only applied to stitch-and-turn constructed shoes, a construction technique that What's What had used to create women's casual footwear in a cost-effective way.

The name "Aerosoles"has been used by the company or its predecessor since at least March 1986. The Aerosoles trademark has been used since at least May 1987. It was first registered by Kenneth Cole Productions and subsequently assigned to Aerosoles. It was registered by the Patent and Trademark Office on March 9, 1993. The trademark encompasses the word "Aerosole" in stylized capital letters with a twisting line underneath that curves back and forth three times. The entire mark is written on an angle with the right edge of the word higher than the left. Aerogroup generally marks its Aerosoles trademark with the "registered" symbol. Aerogroup acknowledges that it does not have ownership rights over every "imperfect"line underneath a brand name.

A waffle design on the sole of the Aerosoles shoes was first used in 1985. In May 1991 the patent andtrademark office refused to register the waffle trademark because "the public would perceive the proposed mark merely as a decorative or ornamental feature of the goods and not as an indicator of source of the goods." On February 6, 1996, the Patent and Trademark Office issued a Section 2(f) trademark registration for the design described as "a fanciful design which may be read as an array of a plurality of diamond or rhombic recessed patterns on the sole of women's low or high heel fashion shoes. Such pattern is not confined to a particular portion of the shoe sole . . . ."

While the waffle trademark has never been used with a "TM" symbol or the "registered" symbol, Aerogroup intends in the future to with begin embedding the "registered" symbol in its waffle soles. The waffle sole is always sold by Aerogroup in connection with a trademark either the Aerosoles trademark or a private label trademark for the shoe to which the sole is attached.

Aerosoles has used a twisted shoe logo since September 1991. An application for registration of the twisted shoe trademark was filed on November 9, 1995, and is currently pending. The application indicates that it is for "mail order services featuring footwear, shoe care kits, T-shirts, backpacks, handbags, and totebags." The mark is a line drawing which operates on a vertical axis to create the image of a twisting shoe coming towards the viewer. It is intended to communicate that the shoes are comfortable, flexible, and lightweight. The logo is used in magazine ads, catalogs, and retail stores.

Aerogroup's trade dress consists of a combinationof the individual elements of intellectual property Aerogroup claims in this action. The trade dress thus includes (1) the Aerosoles name in stylized print with a "swoosh" underlining which is located on the sock liner of the shoes, on the box, and sometimes on the sole of the shoes, (2) the twisted shoe image, and (3) the waffle pattern on the sole of the shoes. Danderline testified that particular color combinations are not that important to Aerogroup's trade dress. The trade dress is used on shoes, advertising materials and, as noted above, shoe boxes.

2. Advertising and Sales.

2. Advertising and Sales. In 1990, in an advertisement entitled "Just Don't Do It," Aerogroup warned "simulators" that Aerosoles are subject to trademark laws. The ad prominently displayed the Aerosoles trademark, but had no picture of the waffle sole or the twisted shoe.

For the years 1992-1996, Aerogroup invested over $7.2 million in nationwide advertising of its brand. It advertises predominantly in women's magazines, including Ladies Home Journal, Redbook, and Vogue.

When six consumer focus groups were surveyed in early 1994, the surveyors drew the conclusion that Aerosoles "has weak awareness in the marketplace . . . . Aerosole as a brand does not own the rubber sole category in the minds of the consumer. Brand awareness and connection with a unique sole construction are minimal."

In 1995, Aerogroup decided to shift advertising from magazines to television. In 1996 to date, Aerogroup has expended over $2 million for television advertising. The television commercials which were shown during the hearing prominently display the Aerosoles trademark, but the sole is only briefly displayed when an animated shoe is quickly "twisted" toward the viewer at the end of the commercial. It is impossible to discern the trademarked waffle pattern on the sole. For the fiscal year 1996, Aerogroup will incur $3.2 million in advertising expenditures. This includes a catalogue sent this fall to 1.8 million consumers in the United States.

A consumer survey compiled in April 1996 demonstrated that more than one half of all persons interviewed knew of Aerosoles, and that Aerosoles had greater name

recognition than for brands such as Rockport,Timberland, Kenneth Cole, and Doc Martens. One in four of those surveyed said that they had seen an advertisement for Aerosoles shoes in the past three months. On the other hand, relatively few of the persons interviewed, that is, approximately 6 percent, spontaneously think of Aerosoles when they think of brands of casual footwear. This, however, was true for all brands measured.

In the last three-year period, average sales of footwear bearing the Aerosoles name have exceeded $140 million in retail sales per year. In 1995, 4,400,000 pairs of Aerosoles brand shoes were sold. Some of the department stores through which Aerosoles are sold are Carson Pirie Scot, Filene's, and Kaufmann's. Aerosoles shoes are sold in their shoe departments and sometimes in Aerosoles shops within department stores.

Since May of 1995, Aerogroup has opened 19 Aerosoles retail stores throughout the United States. Each store sells Aerosoles footwear exclusively, with the exception of one store, which sells handbags not bearing the Aerosoles trademark.

In order to preserve its position in the marketplace as a seller of what it describes as betterquality lightweight flexible footwear, Aerogroup does notsell to many retailers that are known for selling lower cost shoes.

3. First Cost Division

Through its first cost division, Aerogroup acts as a purchasing agent for unbranded or private label footwear, overseeing the design, manufacture, quality, and shipment of the footwear. As Olicker testified, Aerogroup entered this market to derive

advantage from what it had created through its Aerosoles shoes. At any given time Aerogroup has about 20 private label customers with an aggregated total of 50 such customers to date.

The designs that Aerogroup offers to its unbranded and private label customers follow the designs for Aerogroup's Aerosoles branded shoes. The private label shoes are, in effect, "knock-offs" of the Aerosoles' styles and shoes. Aerogroup refuses to make "knock-offs" of what they consider to be inferior quality. For instance; Aerogroup does not order shoes with synthetic uppers. Aerogroup will, at a customer's request, copy a customer's uppers to create a private label product. In addition, Aerogroup is responsible for making sure that the sock liner labels and shoe boxes meet the specifications of the customer. Therefore, it is aware of the trade dress through which the goods are presented to the consumer. The customer, however, chooses the trade dress for the private label shoes.

In addition, while Aerogroup sells some private label shoes under its own brand names, such as What's What, Paradise, and Bottoms Up, the customer usually chooses its own brand name for the private label shoes it buys. Aerogroup does not control the way its customers advertise the private label shoes. The customer pays the factorywhich manufactures the shoes; Aerogroup receives a commission from the customer.

The first cost shoes cost less at retail than similar models of Aerosoles branded footwear. The lower price for the unbranded Aerogroup shoes is explained in part by the fact that Aerogroup need not finance the purchase of the shoes or maintain an inventory, and it is not responsible for advertising, customer service, or returns. In addition, different leather and a lower cost manufacturer is usually used for the unbranded

products. Most of Aerogroup's unbranded shoes are manufactured in factories in China with leathers from South America or Taiwan. In contrast, Aerosoles are manufactured in Europe or Sri Lanka with leathers obtained in Italy, which is known for higherquality leathers and leather finishing.

The factory and not Aerogroup is responsible for the quality of the private label shoes, though Aerogroup mediates disputes between its customers and the factory and inspects the quality of shoes produced by the factory. Oneof the factories used by Aerogroup to manufacture its first cost product is a factory in China which operates under thenames Oriental Wide Limited and Best Health Ltd. Marlborouses the same factory complex -- although not necessarily the same production line -- to manufacture the shoes atissue in this suit.

Aerogroup's private label shoes are generally notsold in department stores. Rather, they are sold through various retail outlets. In essence, the private label shoes are sold to a different, lower-priced, lower-quality market segment than Aerosoles branded shoes.

In the last three-year period Aerogroup's average sales of first cost footwear at retail have exceeded $65million per year. In 1995, 3.6 million pairs were sold through Aerogroup's first cost division, accounting for approximately 9 percent of Aerogroup's total revenues. The sales of private label shoes account for approximately 25 percent by volume of the shoes sold by Aerogroup.

Almost all of the shoes which Aerogroup sells through its first cost division have the waffle sole. This includes the shoes carrying the brand names chosen by the customer as well as the brand names which belong to Aerogroup.

J.C. Penney's is one of the customers ofAerogroup's first cost division. Aerogroup designed the sock liner label and

box for J.C. Penney's with the name "Mixed Blues" written in the same script and swoosh as the Aerosoles trademark and placed on the same location on the box and on the label. The Mixed Blues shoes also bear the waffle sole. In fact, Aerogroup suggested and designed the Mixed Blues trade dress, which is identical to the Aerosoles trade dress except for the private label name. Mixed Blues is J.C. Penney's registered trademark and has been used by it on many different types of shoes, not just shoes purchased through Aerogroup. Aerogroup explains that, through this intentional effort on its part, it sought to set its private label shoes apart by presenting product in away that would take advantage of any association consumers might feel with the Aerosoles trade dress.

Another customer of Aerogroup's first cost division is Eddie Bauer, which identified the Aerogroup manufactured waffle sole in its catalog as "Our flex/waffle outsoles . . . ." When this was brought to its attention in this litigation, Aerogroup advised Eddie Bauer of its desire that Eddie Bauer stop using that statement.

Aerogroup-produced private label shoes are also sold under the names Bass and Canyon River Blues. Both of those brands put their brand names on the waffle sole.

Sears, another Aerogroup unbranded or private label customer, has, with Aerogroup's permission, used a tag manufactured by Aerogroup that is attached to Sears' private label footwear sold under the name Trader Bay. The tag contains a picture of the waffle sole with the following copy: "The soul of TRADER BAY" and "TRADER BAY ACTIVES.Yes. Active shoes are Trader Bay too. With the same cushy sole: A cushioned insole, supported by a plush foam footbed. And molded air pockets in a patented sole." The picture on the Trader Bay tag includes a twisted shoe.

3. The Marlboro Defendants and Their Business

Turning now to Marlboro. Marlboro Footworks, Ltd. ("Marlboro"), which was founded in 1987, is a buying agent which arranges for the production of footwear through its agents overseas and sells it to customers in the United States and Canada. Marlboro was founded by defendant Laurence Koplan who had been an owner for approximately twenty years of a domestic footwear manufacturing company.

Marlboro presents footwear styles to its customers from which they can select styles of shoes that they would like to order. Marlboro gets its ideas for footwear styles by looking at fashion trends in Europe, the United States, and Canada. Independent contractors for Marlboro, such as defendant Steven Goldberg, purchase shoes in the retail market or take photographs of such shoes. Using these ideas, Marlboro may on occasion also create its own shoe designs. Marlboro will then present the shoes it has purchased, the photographs it has taken, or its own shoe designs to its customers and solicit orders. Its sales people travel with as many as 120 individual samples. Marlboro has presented Aerosoles shoes to its customers in this fashion to solicit orders. A customer's orders include a description of the product style it wishes to "knock off," such as an Aerosoles style.

Marlboro is paid a commission based on the factory cost per pair of shoes, an arrangement referred to as first cost basis. When a customer buys shoes on a first cost basis, it assumes all of the risks. If there is a major damage claim concerning the quality of the manufactured goods, however, Marlboro will help in the negotiation and resolution of the claim.

Marlboro feels free to copy any upper portion of a shoe. It has a policy of not copying a bottom or sole exactly.

In this case, the soles of the Marlboro shoes which are knock-offs of the Aerosoles shoes contain a pattern of shallow squares constructed at 90-degree angles, with a cross placed in the middle of the square. The Marlboro sole is different from the Aerosole waffle pattern, which is diamond-shaped and has a deeper recess without crosses. Marlboro also claims not to create logos or brand names identical to those on the shoes it copies for its customers.

Marlboro is responsible for the design and functionality of the shoes, but its overseas agent is the person who supervises the construction of the shoe.Generally, a sample of a shoe, known as a confirmation sample, is sent to a customer 45 days to two months after anorder is placed, and the shipment of shoes is sent six months after the order is placed. When the sample is sent to a customer, it has the name "Marlboro Collection" or "Air Supply," Marlboro's registered trademark, on it. The final shipment of shoes is sent directly from China to the customer, who has provided a letter of credit to the Chinese factory. The factory is responsible for paying the agent, in this case, the agent in Taiwan.

The customer is responsible for the design of the trade dress for the shoes, including the shoe box and sock logo with a brand name. This information is sent to Marlboro, who in turn forwards it to its Taiwanese agent to be given to the factory. Marlboro contends it does not always know what trade dress its customer chooses. I find this to be incredible. Indeed, the evidence is that Marlboro and its agents consulted closely with Marlboro's customers on the details of the trade dress.

Marlboro's customers include J. Baker, Carnival Shoe, Gredico, Shoe Show, Wal Mart, and others. These customers compete in what is known as the unbranded shoe market. None of Aerogroup's eight largest customers, which account

for 60 to 70 percent of Aerogroup's branded sales, carry Marlboro's shoes.

Approximately four years ago Koplan became awareof the Aerosoles product. Approximately two years ago one of Marlboro's customers ordered a copy of Aerosoles shoes. The customer had been ordering such shoes through a different buying agent but was not satisfied with the quality of shoes and hoped that Marlboro would be able to provide it with a better quality copy. Marlboro ultimately placed an order with its Taiwanese agent for these shoes. The shoes were manufactured at a factory in China known as Oriental Wide.

Marlboro's Taiwanese agent had a long term relationship with Oriental Wide and, in fact, had been instrumental in teaching the factory how to make stitch-and-turn shoes. The agent had worked with Oriental Wide as long ago as 1988 and 1989 to produce casual sport shoes for Marlboro's customers using this method of construction. By 1990, however, Marlboro stopped ordering stitch-and-turn shoes manufactured by Oriental Wide. It continued, however, to use the factory for other styles. In 1994, as a result of interest from its customers, Marlboro again ordered casual shoes from this factory, although it was a cement lasted sandalized shoe. Shortly thereafter, Marlboro began once again to order casual shoes with a stitch-and-turn construction from the factory.

Since 1994, Marlboro has engaged in an active campaign to "knock off" Aerosoles shoes. It has solicited business from customers by comments such as "We're doing Aerosoles shoes perfectly"; "We're doing the best copies of Aerosoles shoes on the market"; touting the fact that it is using the same factory that Aerogroup is using to manufacture its unbranded shoes; using Aerosoles shoes when soliciting orders as the model for what it will order; using references to

Aerosoles styles on order forms to describe the shoes it was ordering for its customers.

Marlboro has been using the name Air Supply for almost a decade. Over this period it frequently used the name on shoe samples, and occasionally a customer ordered private label shoes from Marlboro using that name. It was used by one Marlboro customer exclusively from approximately 1993 to January of 1996 as its private label brand for shoes that were not Aerosoles knock-offs.

In 1995, however, having had considerable success with its Aerosoles knock-offs, Marlboro ordered labels and boxes from its Taiwan agent that knocked off Aerosoles' trade dress using the name "Air Supply," to use at its August 1995 Las Vegas Shoe Show display. By using Aerosoles' trade dress to display its knock-offs of Aerosoles' shoes, Marlboro hoped to draw attention to how close its knock-offs were to the original Aerosoles.

In early 1996, after its customer who had had exclusive use of the name Air Supply for several years went out of business, Marlboro allowed its other customers to use the Air Supply trade dress that Marlboro had created to knock off the Aerosoles trade dress. Those customersinclude Town Shoes, Bata, and Weiss & Neuman, who used this trade dress for their Aerosoles knock-off shoes.

Marlboro places approximately $38 million worthof orders through its Taiwanese agent. 30 percent of its styles are high-heeled dress shoes; 30 percent lower-heeled dress shoes; and 40 percent are sport and comfort casual shoes, including the shoes at issue here. The Aerosoles type shoe constitutes approximately 7 percent of Marlboro's business.

4. The Casual Shoe Market

Turning now to an overview of the casual shoe market. The shoe market is roughly divided among designer shoes, branded shoes, and unbranded shoes. Examples of higher-priced branded casual shoes are Niot, Arche, and Ecco, which can sell at or above $100 a pair. Lower-priced branded casual shoes are Bass, Clarks, Dexters, and Aerosoles.

The unbranded market include shoes intended forthe mass market. They sell at an even lower price rangethrough mass market retail outlets such as Payless, Wal Mart, and Kmart, which may place their own private label brand names on the shoes.

Marlboro's shoes and Aerogroup's private label business compete in this unbranded market. Generally, the styles sold in the unbranded market are copies of or, as they may more euphemistically be called, "interpretations"of the styles sold in the branded market. Copying is known in the trade as "knocking off." Such copying exists all down the line in the shoe industry, starting with designs created for designer shoes and copied by the branded shoes, and so forth on down the line.

Aerogroup admits that one can "knock off" a shoe without infringing on intellectual property rights. Schneider admits that Aerogroup "knocks off" other shoes in creating its own shoes for Aerosoles. Schneider refers to this as Aerosole-izing the other brand of shoes. In addition, Aerogroup copies its Aerosoles designs to create its unbranded or private label shoes sold through its first cost cost division.

There are a large number of shoes in the market with flexible soles that have geometric designs. Indeed,one brand, Revelations, has a sole with a waffle pattern like Aerosoles'.

Two other brands, Mootsies Tootsies and Romika, have soles very much like the knock-off sole for its Aerosoles knock-offs.

Consumers are also confronted with scores of trademarks that use the name "Air." In connection with footwear, Nike has many "Air" marks, including a mark called "Air-Sole." In addition, many footwear companies use underlining beneath their trade names as an integral part of their trademarks.

II. The Legal Framework

A. Preliminary Injunction Standard

Turning now to the legal framework. In the trademark and trade dress context, "assuming that a particular mark warrants protection under the Lanham Act, the requisite likelihood of success on the merits and irreparable harm can both be established by showing a 'likelihood that an appreciable number of ordinarily prudent purchasers are likely to be misled, or . . simply confused, as to the source of the goods in question.'" Western Publishing Co. v. Rose Aret Industries, 910 F.2d 57, 59 (2d Cir. 1990). See also Jeffrey Milstein v. Greger, Lawlor, Roth, Inc., 58 F.3d 27, 31 (2d Cir. 1995) (in which the Second Circuit observed that, "In the trade dress context, a showing of likelihood of confusion as to source will establish a risk of irreparable harm."). Thus, the Lanham Act's substantive trademark law inquiry of likelihood of confusion parallels the preliminary injunction standard. Of course, now I must reach the issue given the parties' contentions as to whether or not a permanent injunction should issue.

B. The Lanham Act

"Section 43(a) of the Lanham Act proscribes 'false designation of origin' in relation to goods or services . . . . Its purpose is to prevent consumer confusion regarding a product's source, and to enable those that fashion a product to differentiate it from others on the market." Centaur Comm., Ltd. v. A/S/M Comm., Inc., 830 F.2d 1217, 1220 (2d Cir. 1987).

To prevail under 15 U.S.C § 1114(1)(a), which covers registered trademarks, "the plaintiff must show that 'it has a valid mark entitled to protection and that the defendant's use of it is likely to cause confusion.'" Cadbury Beverages, Inc. v. Cott Corp., 75 F.3d 474, 477 (2d Cir. 1996). Similarly, under Section 1125(a), which involves false designation of origin and encompasses even nonregistered trademarks and trade dress, the "plaintiff must prove (1) that its dress is distinctive of the sourceand (2) that a likelihood of confusion exists between its product and the defendant's product." Knitwaves, Inc. v. Lollytogs Ltd., 71 F.3d 996, 1006 (2d Cir. 1995). The standard for trademark infringement and for trade dress infringement is essentially the same. Two Pesos, Inc. v. Taco Cabana, Inc., 505 U.S. 763, 773 (1992).

1. Distinctiveness

In determining whether a mark or trade dress is distinctive, "a plaintiff must demonstrate either that it is 'inherently distinctive' or that it has become distinctive through acquiring 'secondary meaning' to the consuming public." Knitwaves, 71 F.3d at 1006-07. Of course,"registered trademarks are presumed to be distinctive and should be afforded the utmost protection." Lois Sportswear v. Levi Strauss & Co., 799 F.2d 867, 871 (2d Cir. 1986).

In determining whether a trademark or trade dress is inherently distinctive, the Second Circuit has followed a test developed by Judge Friendly in Abercrombie & Fitch, 537F.2d 4, 9 (2d Cir. 1976). Under this test, "marks areclassified as either (1) generic, (2) descriptive, (3) suggestive, or (4) arbitrary or fanciful." Knitwaves, 71 F.3d at 1007.

In defining these terms, the Second Circuit hasstated that, "A generic mark is generally a common description of goods and is ineligible for trademark protection. A descriptive mark describes a product's features, qualities, or ingredients in ordinary language and may be protected only if secondary meaning is established. A suggestive mark employs terms which do not describe butmerely suggest the features of the product, requiring the purchaser to use 'imagination, thought, and perception to reach a conclusion as to the nature of the goods . . . .' Fanciful or arbitrary marks are eligible for protection without proof of secondary meaning and 'with ease of establishing infringement.'" W.W.W. Pharmaceutical Co. v. Gillette Co., 984 F.2d 567, 572 (2d Cir. 1993).

The significance of these labels is that "[w]hile generic marks can never serve to distinguish a source, and descriptive marks require a demonstration of secondary meaning in order to become distinctive, suggestive and arbitrary or fanciful marks are considered to be inherentlydistinctive." Knitwaves, 71 F.3d at 1007. See also Paddington Corp. v. Atticki Importers & Distributors, Inc., 996 F.2d 577, 583 (2d Cir. 1993).

If a mark or trade dress is not inherently distinctive or if it is a descriptive mark under the Abercrombie & Fitch test, then the court must determine whether the mark or trade dress has acquired secondary meaning. To show secondary meaning, the plaintiff must "show that, over time, the trade dress has become identified with its producer in the mind of potential

customers." L. & J.G. Stickley, 79 F.3d at 263. See also Knitwaves, 71F.3d at 1008.

The Second Circuit has identified several factors which a court should examine in determining the existence ofsecondary meaning. "The elements are (1) advertising expenditures, (2) consumer studies linking the market to a source, (3) unsolicited media coverage of the product, (4) sales success, (5) attempts to plagiarize the mark, and (6) length and exclusivity of the mark's use." Centaur Communications, 830 F.2d at 1222. The Second Circuit teaches that in undertaking this analysis, the Court should keep in mind that "although the mark owner strives to create a secondary meaning for its product, it is the consumingpublic which, in effect, determines whether that effort has succeeded." Id. at 1221.

2. Likelihood of Confusion

In deciding whether a plaintiff has successfully shown a likelihood of confusion, the Second Circuit requiresthe Court to engage in a multifactor balancing test developed in Polaroid Corp. v. Polaroid Electronics, 287 F.2d 492 at 495 (2d Cir.), cert. denied 368 U.S. 820 (1961).See also The Sports Authority v. Prime Hospitality Corp., 89F.3d 955, 960 (2d Cir. 1996). In undertaking this balancing, the court should remember that "the evaluation of the Polaroid factors is not a mechanical process 'where theparty with the greatest number of factors weighing in its favor wins.' Rather, a court should focus on the ultimate question of whether consumers are likely to be confused." Paddington Corp., 996 F.2d at 584. Indeed, "the proper approach is to weigh each factor in the context of the others to determine if, on balance, a likelihood of confusion exists." W.W.W. Pharmaceutical, 984 F.2d 567, 572 (2d Cir. 1993).

3. Private Labeling

The parties have briefed the issue of what effect the use of private label has on the above analysis. As the Third Circuit has recently stated in dicta:

"The use of private labeling undermines a claim that a product's appearance denotes its source because consumers will be less likely to associate the multifariously labeled product with a single source.

"It would seem that any manufacturer employing private labeling for its product necessarily exercises control over that practice, and if it is the plaintiff's actions that caused the confusion, the plaintiff will not be heard to complain." Versa Products v. Bifold Co., 50 F.3d189, 216 (3d Cir. 1995). See also Alexander Binzel Corp. v. Nu-Tecsys Corp., 22 U.S.P.Q.2d 1793, 1795 (N.D. Ill. 1992);British Seagull Ltd. v. Brunswick Corp. 28 U.S.P.Q. 1197,1203 (TTAB 1993), affirmed on other grounds, 35 F.3d 1527 (Fed. Cir. 1994).

As McCarthy has observed, "When a product shape or design is sold by the authority of plaintiff under several different word marks (e.g., by 'private labeling' for others), it is more difficult for plaintiff to prove secondary meaning -- that is, that the shape or design identifies a single source." J. Thomas McCarthy, McCarthy on Trademarks & Unfair Competition, Section 8.02[5] (3d Ed.1996).

Aerogroup's efforts to undermine these principlesby reference to other decisions are not persuasive. First, Aerogroup relies on Tone Bros. Inc. v. Sysco Corp., 28 F.3d1192 (Fed. Cir. 1994), which reversed a grant of summary judgment which had been given on the ground that the trade dress at issue was nonprotectable. 90 percent of the plaintiff's sales had been private label sales, although the plaintiff's name also appeared on a certain number of the items. The court held

that disputed issues of fact prevented the grant of summary judgment but noted that, "The private labeling evidence is nevertheless relevant to thesecondary meaning inquiry in that [plaintiff] may have mistakenly caused the relevant consumer to place reliance on the private label as an indicator of the manufacturer of the[product]." Id. at 1204.

Aerogroup also cites Benjamin Moore & Co. v.Talon Paints Products, Inc., 917 F.Supp. 331 (D.N.J. 1996) in support of its position that its private labeling is irrelevant. The district court in Benjamin Moore rejected the defendant's motion to vacate the court's prior ruling granting summary judgment against the defendant for its intentional infringement of the plaintiff's trade dress. The evidence presented by the defendant at that late stage of the litigation of "limited" private labeling by the plaintiff that was no longer occurring was simply insufficient, in the court's view, to require the court to reopen its examination of the case. Thus, Benjamin Moorehas limited relevance to our case.

Finally, Essie Cosmetics, Ltd. v. Dae Do International, Ltd., 808 F.Supp. 952 (E.D.N.Y. 1992), a casein which private label sales of 10 percent of theplaintiff's products did not prevent a grant of a preliminary injunction, is unpersuasive in light of the survey evidence that the relevant market of customers strongly identified the trade dress at issue in that case with the plaintiff.

Finally, Aerogroup's reliance on "double trademarking" cases is misplaced. As a factual matter, because Aerogroup does not place its Aerosoles trademark anywhere on the private label shoes, and because Aerogrouphas presented no persuasive evidence that consumers can identify the waffle sole with a single label source, the private labeling in which Aerosoles has engaged does not alert the consumer to the fact that Aerosoles is involved in providing the product to the private label brand.

In sum, when the owner of a trademark or trade dress engages in private labeling, it puts its product on the market with another company's label on it. When consumers see that product in the marketplace as well as the company's own product -- with different labels -- they are more likely to infer that there is more than one source supplying that product. Accordingly, the use of private labeling is a significant factor in determining whether consumers identify a feature such as the waffle sole with a single source.

Most of the courts that have dealt with the impact of private labeling have examined it in the context of secondary meaning. However, insofar as the existence of private labeling is relevant to deciding whether consumers are likely to identify a product with a single source, it is also relevant in determining the strength of a trademark or trade dress, and thus whether consumers are likely to be confused by the defendant's activities. Therefore, I find that the existence of private labeling is relevant inanalyzing two issues in this case: (1) whether a trademark or trade dress has acquired secondary meaning and (2) whether there is a likelihood of confusion.

C. Dilution and Unfair Competition

1. Dilution Under Federal Law

Turning now to the law with respect to dilution and unfair competition. Aerogroup also alleges a violation of the Federal Trademark Dilution Act of 1995, codified at 15 U.S.C.A. § 1125(c). One court in this district has held that:

"In order to prevail on its dilution claim under federal law, [a plaintiff] must demonstrate (1) ownership of a distinctive trade dress or famous mark and (2) dilution. Dilution is defined as a 'lessening of the capacity of afamous

mark to identify and distinguish goods or services.'" Clinique Labs v. Dep Corp., 1996 WL 583395, at *13, (S.D.N.Y. October 10, 1996). See also Ringling Bros.- Barnum & Bailey Combined Shows Inc. v. B.E. Windows Corp., 1996 WL 391886 (S.D.N.Y. July 11, 1996).

The statute provides factors to consider indetermining whether a mark is famous or distinctive. Those factors are:

(A) the degree of inherent or acquired distinctiveness of the mark; (B) the duration and extent of use of the mark in connection with the goods or services with which the mark is used; (C) the duration and extent of advertising and publicity of the mark; (D) the geographicalextent of the trading area in which the mark is used; (E) the channels of trade for the goods or services with which the mark is used; (F) the degree of recognition of the mark in the trading areas and channels of trade used by the mark's owner and the person against whom the injunction is being sought; (G) the nature and extent of use of the same or similar marks by third parties; and (H) whether the mark is registered . . . ." 15 U.S.C.A. 1125(c)(1).

It has been suggested that the language of the federal statute "mirrors the traditional New York dilutionanalysis under which dilution can be founded upon a showing of either blurring or tarnishment." Clinique Labs, 1996 WL 391886, at *13.

2. Dilution Under New York Statutory Law

Aerogroup also makes a claim under the New York antidilution statute, N.Y. General Business Law § 368-d. "A claim for dilution rests on the allegation that a defendant is attempting to 'feed[] upon the business reputation of an established distinctive trademark or name.'" W.W.W. Pharmaceutical Co., 984 F.2d at 576. "To establish a trademark dilution claim

under New York law, [plaintiff] must show ownership of a distinctive mark and a likelihoodof dilution. Dilution can consist of either blurring or tarnishment of [plaintiff's] mark." The Sports Authority, 89 F.3d at 966. The defendant's "predatory intent" may also be an important consideration. Deere & Co. v. MTDInc., 41 F.3d 39, 42 (2d Cir. 1994).

Dilution by blurring "may occur where thedefendant uses or modifies the plaintiff's [trademark] toidentify the defendant's goods or services, raising thepossibility that the mark will lose its ability to serve as a unique identifier of the plaintiff's product." Deere & Co., 41 F.3d at 43. "Traditionally, the likelihood of blurring has been governed by a six-factor test: (1) similarity of the marks, (2) similarity of the products covered, (3) sophistication of the consumers, (4) predatory intent, (5) renown of the senior mark, (6) renown of the junior mark." The Sports Authority, 89 F.3d at 966.

Dilution by tarnishment "generally arises when the plaintiff's trademark is linked to products of shoddy quality, or is portrayed in an unwholesome or unsavory context likely to evoke unflattering thoughts about the owner's product." Deere & Co. 41 F.3d at 43.

3. Unfair Competition Under New York Common Law Finally, Aerogroup makes a claim based on NewYork common law. "The state law cause of action for unfair competition shares many common elements with the Lanham Act claims of false designation of origin and trademark infringement, including proof of actual confusion to recoverdamages, and proof of a likelihood of confusion for equitable relief." W.W.W. Pharmaceuticals, 984 F.2d at 576 Under New York common law, "an action for trademark infringement as well as an action for unfair competition both require a showing that the public is likely to confuse the defendant's product or service with that of the plaintiff." Allied Maintenance Corp. v. Allied

Mechanical Trades, 399 N.Y.S.2d 628, 631 (N.Y. 1977). "'The essence of unfair competition under New York common law is the "bad- faith misappropriation of the labors and expenditures of another, likely to cause confusion or to deceive purchasers as to the origin of the goods."'" Jeffrey Milstein, Inc.,58 F.3d at 34. Thus, "there must be a showing of bad faith." Id. at 35.

III. Discussion

Aerogroup claims that the Marlboro defendants areinfringing the trademark rights of Aerogroup in the Aerosoles trademark, the waffle trademark, its trade dress, and in one instance its twisted shoe trademark. Aerogroup has provided the Court with a specific list of shoes, boxes, and advertisements which it claims are infringing itstrademark and trade dress rights and has indicated for each item which rights it contends are being infringed.

A. Distinctiveness of the Aerogroup Trademarks and Trade Dress

While the primary dispute in this case is over the likelihood of confusion, it is necessary as a threshold matter to determine whether each of Aerogroup's claimed trademark or trade dress rights is distinctive and thus protectable.

1. The Aerosoles Trademark

Turning first to the Aerosoles trademark. The Marlboro defendants do not dispute the distinctiveness of the Aerosoles trademark. Moreover, insofar as it is a registered trademark, it is entitled to a presumption of distinctiveness. I find that the name "Aerosoles," coupled with the style of lettering and the "swoosh" underline is distinctive.

2. The Twisted Shoe Trademark

I find that the twisted shoe trademark is distinctive. Because the twisted shoe mark is not yet registered, it is not entitled to a presumption of distinctiveness. Nevertheless, I find that the twisted shoe trademark is a suggestive mark insofar as it suggests to theconsumer features of the shoes -- comfort, flexibility, and light weight -- while still requiring the consumer to use imagination, thought, and perception to connect the market to the product. Because the twisted shoe trademark is suggestive, it is inherently distinctive.

While it is true that this mark is entitled to protection, Aerogroup cannot claim that all use of all images of a twisted shoe is precluded by their trademark.Therefore, I must determine whether the twisted shoe image used by the Marlboro defendants raises a likelihood of confusion in the market.

3.. The Waffle Trademark

The waffle trademark, which is contained on thesoles of the Aerosoles shoes, is registered, and it is thus entitled to a presumption of distinctiveness. The Marlboro defendants, however, have met their burden of overcoming this presumption. The waffle trademark lacks both inherent and acquired distinctiveness.

First, I find that the waffle trademark lacks inherent distinctiveness. The Patent and Trademark Officeitself concluded that the waffle trademark was notinherently distinctive. The significance of a trademark's being utilitarian or ornamental was recognized by the Second Circuit in Knitwaves where the court, quoting the Restatement, noted that:

"'Product designs are more likely to be seen merely as utilitarian or ornamental aspect of the goods . . . . Product designs are therefore not ordinarily considered inherently distinctive and are thus normally protected onlyupon proof of secondary meaning.'" Knitwaves, 71 F.3d at1008 (quoting Restatement (Third) of Unfair Competition § 16, (mt. b (1995)).

I find that the waffle trademark as a product design and is therefore not inherently distinctive.

Second, I find that the waffle trademark does not have secondary meaning. To make this determination, the Court must "ask whether [the waffle trademark] is 'likely to serve primarily as a designator of origin of the product.'" Knitwaves, 71 F.3d at 1008. I find that because Aerogroup has engaged in extensive private labeling of its shoes -- most of which contain the waffle trademark -- it is highly unlikely that customers would be able to attribute the waffle sole to a single, albeit anonymous, source.

The private label shoes containing the waffle sole, which account for 25 percent of Aerogroup's volume of shoe sales, do not indicate on the sole itself that itssource is Aerosoles or Aerogroup. Indeed, Aerogroup has not even placed a "registered" or "trademark" symbol on itssoles, although it intends to begin doing so in the future.Moreover, Aerogroup's advertising has not featured the waffle sole in a way that would permit consumers to distinguish its particular geometric design from other geometric designs. Indeed, Aerogroup's "Just Don't Do It"advertisement warning against infringement did not evencontain a picture of the waffle sole.

Aerogroup's practice of allowing several private label brands -- including Eddie Bauer, Bass, Canyon River, and Trader Bay -- to explicitly label the waffle sole as theirs is

strong evidence that Aerogroup itself does not believe that consumers identify the waffle sole with a single source or with Aerogroup. I contrast the way that Aerogroup has taken great steps to preserve the integrity of its Aerosoles trademark with its treatment of the waffle soles trademark. In any event, on this record Aerogroup has provided no persuasive evidence, such as consumer surveys, that consumers associate the waffle sole with a single source.

Accordingly, I find that the waffle sole is notentitled to trademark protection. In any event, as discussed below, even assuming that the waffle sole is entitled to protection, I would find that there is not a likelihood of confusion by the consumer because the Marlboro soles are not similar enough to the Aerogroup waffle sole.

4. The Aerosoles Trade Dress

As discussed above, the trade dress at issue includes the use of the Aerosoles trademark with a swoosh underneath, located on the shoe box and in the sock liner ofthe shoes, and the twisted shoe, in connection with women'scomfort fashion footwear bearing a waffle sole. In determining distinctiveness of trade dress, I must look at "the combination of elements that should be the focus of the distinctiveness inquiry. Thus, if the overall dress is arbitrary, fanciful, or suggestive, it is inherently distinctive despite its incorporation of generic elements."Jeffrey Milstein, Inc., 58 F.3d at 32. See also Paddington Corp, 996 F.2d at 584.

Looking at Aerosoles trade dress as a whole, I find that it is arbitrary because, as in Paddington, it is a selection of patterns and arrangements from a limitless array of possibilities. Accordingly, the Aerosoles trade dress is inherently distinctive and thus protectable without a showing

of secondary meaning. I rely for this finding, though, in significant part on the protectability accorded the strong Aerosoles trademark, which is an integral component of the trade dress for which Aerogroup seeks protection here.

B. Likelihood of Confusion Between Aerogroup Trademarks and Trade Dress and Marlboro Products

The Court must now apply the eight Polaroid factors in assessing the likelihood that Aerogroup's trademarks and trade dress will be confused with the Marlboro defendants' products. In undertaking this balancing, I must keep in mind that the ultimate question is whether the ordinarily prudent consumer is likely to be confused.

1. Strength

Turning first to the strength of the mark. "The 'strength' of a mark is its tendency to identify the goods sold under the mark as emanating from a particular, although possibly anonymous, source." Cadbury Beverages, 73 F.3d at 479. See also The Sports Authority, 89 F.3d at 960-61. This analysis is similar to the determination of distinctiveness, although in undertaking it the Court should focus not only on whether the mark is distinctive, but on whether the mark is strong enough to indicate to the consumer that the product bearing that mark comes from a particular source.

The Second Circuit has used the same factors in assessing distinctiveness as it has in determining the strength of a mark. As the court recently noted: "We have set forth four categories to guage the extent to which a mark indicates a source of goods or services: (1) generic, (2) descriptive, (3) suggestive, and (4) arbitrary or fanciful. The Sports Authority,

89 F.3d at 961. Significantly for this case, in The Sports Authority the Second Circuit indicated that third-party use of the plaintiff's mark "may be relevant to the strength" of the mark. Id. at 961.

I find that the Aerosoles trademark is a strong trademark. It has been registered since 1993. It is an arbitrary mark which clearly serves to identify Aerogroup's product to the consumer. Moreover, the name "Aerosoles" has been used for around a decade, and Aerogroup has expended about $7 million in nationwide advertising in women's magazines. Its new television campaign also adds strength to the Aerosoles trademark. In addition, the Aerosoles trademark is prominently displayed on the boxes in which its shoes are sold. Finally, the "Just Don't Do It" warning advertisement clearly indicated Aerogroup's desire to maintain the strength of this mark.

I must address the scope of my finding that the Aerosoles trademark is strong. Aerogroup certainly cannot claim property rights in the prefix "Aero" or "Air", as it is undisputed that there are many shoe products in the marketplace which use that word. For example, Nike uses the name "Air-Sole". Moreover, Aerogroup cannot claim a right in the use of underlining. As with the word "air," it is undisputed that several shoe brands contain an irregular underline beneath their brand name. Therefore, while I find that the Aerosoles mark is strong, it is critical to keep in mind that this mark is strong not because of the descriptive name "Aerosoles" or the use of underlining, but rather because of the combination of the words, the style of print,and the swoosh underline. Indeed, Aerogroup admitted at the hearing that the word "Air Supply" in block letters rather than the stylized letters would not infringe its Aerosoles trademark.

I find that the twisted shoe trademark is not a strong trademark. It is not yet registered. Moreover, Aerogroup does

not use it in a consistent way to establish recognition of the trademark. For example, its TV ad campaign does not even show the mark for which Aerogroup has applied for registration. Instead, it depends on an animation of a twisted shoe to convey a concept. On this record Aerogroup has pointed to no evidence, such as consumer surveys, suggesting that consumers associate the twisted shoe with a single source.

I find that the waffle trademark is also not a strong mark as noted above in connection with my discussion of distinctiveness.

Looking at the combination of elements, I find that Aerosoles' trade dress is strong only to the extent that the Aerosoles trademark is displayed in connection with women's comfort shoes.

2. Proximity

"The 'proximity-of-the-products' inquiry," my second factor, "concerns whether and to what extent the two products compete with each other." Cadbury Beverages, 73 F.3d at 480. See also The Sports Authority, 89 F.3d at 963. The Court should examine "'the nature of the products themselves and the structure of the relevant market.'"Cadbury Beverages, 73 F.3d at 480. "Among the considerations germane to the structure of the market are the class of customers to whom the goods are sold, the manner in which the products are advertised, and the channels through which the goods are sold." Cadbury Beverages, 73 F.3d at 480.

I find that the Aerosoles shoes and those sold by Marlboro are targeted broadly to the same market, but are intended to appeal to different segments of that market. First, the fact that Aerogroup is selling lower-cost and lesser-quality

shoes through its private labeling sales suggests that Aerogroup does not believe that its Aerosoles are directly competing with the lower-cost private label shoes. As Aerogroup admitted in its first amended complaint, its first cost footwear is "distributed by plaintiff to serve a different, lower-priced market than Aerosoles footwear."

The Marlboro defendants do not sell shoes to Aerogroup's eight largest customers, who account for 60 to 70 percent of Aerogroup's sales. Thus, although both Aerosoles and the shoes produced by Marlboro compete broadly in the lightweight flexible women's shoes market, their shoes are in different segments of that market, and the private label shoes are not in direct competition with Aerosoles.

3. Bridging the Gap

Turning to the third factor of bridging the gap.This factor "examines whether the prior user may wish to enter the defendant's market in the future." Paddington Corp., 996 F.2d at 586. "Under this factor, if the owner of a trademark can show that it intends to enter the market of the alleged infringer, that showing helps to establish a future likelihood of confusion as to source." Lois Sportswear, 799 F.2d at 874. I find that this Polaroid factor weighs against Aerogroup because, by creating its private label first cost division, it has indicated its view that its Aerosoles products will not be bridging the gap.

4. Actual Confusion

Turning to the fourth factor, actual confusion. This factor "looks to whether any consumers had actually been confused by the products bearing the allegedly confusing marks." Centaur Communications, 830 F.2d at 1227. See also The

Sports Authority, 89 F.3d at 963. A finding of actual confusion is not required to show a Lanham Act violation. Lois Sportswear, 799 F.2d at 875. But such a showing "further buttresses the finding of a likelihood of confusion." Mobil Oil Corp., 818 F.2d at 259.

Aerogroup claims that there is actual confusion in the marketplace. They cite a variety of anecdotal evidence of actual confusion. For the most part, these are examples of Canadian retailers passing off Marlboro's knock-offs as Aerosoles. I find that this anecdotalevidence does indicate some confusion in the marketplace, but this evidence is very weak. None of the evidence reflects confusion on the part of consumers; the strongestevidence relates only to shoe salespeople. Accordingly, while this Polaroid factor weighs somewhat in favor of Aerogroup, it is not of overriding importance.

5. The Marlboro Defendants' Good FaithTurning to the Marlboro defendants' good faith. The Second Circuit has held that if a court finds intentional copying, "a presumption arises that the copier has succeeded in causing confusion." Paddington Corp., 996 F.2d at 586; Mobil Oil Corp. v. Pegasus Petroleum Corp., 818 F.2d 254, 258 (2d Cir. 1987). Important indicia of bad faith would include "actual or constructive knowledge" of Aerogroup's prior use of its mark or trade dress. Paddington Corp., 996 F.2d at 587. In addition, "Where such prior knowledge is accompanied by similarities so strong that it seems plain that deliberate copying has occurred, we have upheld findings of bad faith." Paddington Corp., 996 at 587.

This presumption is not absolute. The Second Circuit has made clear that a presumption does arise from intentionally copying. "But if comparison of the [marks] reveals no fair jury issue concerning likelihood of confusion, then intent to copy, even if found from the proffered evidence, would not establish

a Lanham Act violation." Warner Bros. v. American Broadcasting Co., 720 F.2d 231, 246-47 (2d Cir. 1983).

In addition, while the Court in Lois Sportswear stated that "intent is largely irrelevant in determining if consumers likely will be confused as to source," 799 F.2d at 875, the Second Circuit has since indicated that Lois Sportswear's concern regarding the relevance of intent "did not signal a departure from the longstanding rule . . . but suggested instead that the absence of good faith cannot control." Centaur Communications, 830 F.2d at 1228.

Aerogroup has argued vigorously that the Marlboro defendants have acted with bad faith and have intentionally copied the Aerosoles trademarks and trade dress and that this entitles them to a presumption of confusion. There is considerable evidence that the Marlboro defendants are intentionally copying the Aerosoles shoes. But it is equally clear that under established shoe industry custom, including Aerosoles' own practice of "Aerosole-izing" other brands, shoe manufacturers commonly copy, or knock off, competitors' shoes. Most knock-offs are copies of the shoe upper, that portion of the shoe that does not include the sole.

Thus, the issue is not whether there is evidence that Marlboro intended to copy Aerosoles shoes, but whether Marlboro intended to copy legally protected intellectual property rights owned by Aerogroup. Aerogroup does not dispute this insofar as it has admitted that one could copy its shoes without infringing its trademark and trade dress rights.

The evidence here is that Marlboro deliberately chose a sole that it believed did not infringe on or even copy Aerogroup's sole. Moreover, with the one exception of the Air Supply trade dress it developed for the 1995 Las Vegas Shoe Show, trade dress it in 1996 allowed customers to use, it has

not acted to copy Aerosoles' trade dress. Thus, to the extent that Marlboro's intent creates a presumption, that presumption applies only to the 1996 Air Supply trade dress which was intentionally chosen to knock off Aerosoles' trade dress. Even with respect to this trade dress, however, Marlboro chose a green color shoe box never used by Aerosoles for at least those shoes sold in the United States, in an effort to dilute the impact of the copying.

6. Quality

Turning now to the quality factor. "This factor generally considers whether the senior user's reputation could be 'tarnished by [the] inferior merchandise of the junior user.'" Cadbury Beverages, 73 F.3d at 483. See also The Sports Authority 89 F.3d at 965.

The Marlboro defendants do not claim that the quality of their products is equivalent to that of Aerosoles. Rather, they argue that their shoes are equivalent in quality to Aerogroup's private label unbranded shoes. Because of the existence of the Aerogroup's private label brands, I find that the difference in quality between the Aerosoles shoes and those shoes produced by Marlboro is not a significant factor in determining whether consumers are likely to be confused or whether Aerosoles' brand name is likely to be tarnished.

7. Sophistication of the Purchasers

Turning to the sophistication of the purchasers. The theory underlying this factor is that "[]the more sophisticated the consumers of a product are, 'the less likely it is that similarities in trade dress or trademarks will result in confusion concerning the source or sponsorship of the product.'" Paddington Corp.,

996 F.2d at 587. See also The Sports Authority, 89 F.3d at 965.

The primary consumers of these products are women buying lightweight flexible footwear. There is no evidence tending to show that these consumers are unable to distinguish between the more expensive and higher quality Aerosoles shoes and the cheaper Marlboro shoes, so long as they are clearly labeled differently. Indeed, Aerogroup seems to agree with this conclusion, since it is willing to sell lower-quality, lower-priced shoes to its private label customers and therefore must believe that these unbranded shoes will not be confused with the Aerosoles branded product.

8. Similarity

Turning to a critical issue here, the similarity among the shoes and the trademarks and trade dress at issue.

"This factor asks whether the similarity of the marks is likely to cause confusion." Cadbury Beverages 73 F.3d at 479. In determining the similarity of the two products, the Second Circuit considers:

"(1) whether the similarity between the two marks is likely to cause confusion and (2) what effect the similarity has upon prospective purchasers. In deciding whether the marks are similar as used, we do not look just at the typewritten and aural similarity of the marks, but how they are represented in the marketplace." The Sports Authority 89 F.3d at 962.

The Second Circuit has stated that "'the general impression conveyed to the purchasing public by the respective marks' is the pertinent inquiry." Centaur Communications, 830 F.2d at 1226.

I now address each individual item listed on Plaintiff's Exhibit 139 which Aerogroup claims infringes their trademarks and trade dress rights.

I find that the twisted shoe figure used by the Marlboro defendants on the Air Twist box is not sufficiently similar to the Aerogroup twisted shoe trademark to warrant enjoining its use. First, the Air Twist shoe box contains adrawing of two hands twisting a shoe held horizontally. Second, the Aerogroup twisted shoe is a simple line drawing of a twisted shoe on a vertical axis.

Thus, in looking at Exhibit 117, I find there is not sufficient similarity to believe that any consumer would confuse the logo, name, and design of the Air Twist box with the trademarked twisted shoe design belonging toAerogroup. Similarly, I find that the overall trade dress displayed on the Air Twist box does not violate Aerogroup's trade dress rights, nor does the use of the Air Twist name alone or in conjunction with the twisted shoe design violate Aerosoles' trademark rights. Therefore, I reject each of Aerogroup's claims with respect to Exhibit 117.

I find that the shoe sole used by the Marlboro defendants is not confusingly similar to that used by Aerogroup. Both soles have a pattern containing recesses. Beyond that, however, it is the differences that predominate. The Aerosoles waffle pattern contains a deep diamond-shaped recess repeated over and over again. The Marlboro shoes are different in that (1) they are squares, the recesses in the sole pattern are squares, (2) and they contain prominent crosses in the middle of each of the square shapes. Moreover, the recesses are shallow and significantly so compared to the waffle pattern on the Aerosoles shoes.

I find that these differences are significant enough that consumers would not be confused into thinking that the soles were from Aerosoles. Therefore, I weigh not only the similarity factor but all the factors, all of the eight Polaroid factors, and reject the claims made by Aerogroup with respect to its claimed violation of the waffle trademark. This applies, then, to Exhibits 102, 103,104, 105, 107, 109, 111, 114, 115, 116, 119, 124, 125, and 126.

Exhibit 139 also listed as a violation of the waffle trademark the Gredico advertisement which is Exhibit 95. However, I did not observe a display of the waffle trademark on that advertisement, and therefore I have not entered a ruling with respect to that issue.

Finally, I find that some of the trade dress employed by the Marlboro defendants is similar enough to Aerosoles' trade dress that it must be enjoined. Looking at the combination of elements, I find that Exhibits 108, 113, and 120, all Air Supply boxes, are similar enough to Aerosoles trade dress to warrant an injunction. These boxes contain a similar word, "Air Supply," in similar script with an underscoring line placed in the same location on the box.This trade dress was intended to copy Aerosoles', and I find that it does in a way sufficiently similar to be confusing.

I rely on the defendants' intent and also on the similarity of the trade dress, as well as weighing the other Polaroid factors. It is critical to my determination that Aerosoles is a strong mark and that the defendant here has chosen to use a name containing the word "Air" in creating the infringing trade dress. Thus, I do not find an infringement from the use of similar trade dress with the name Featherlite too!. As with the plaintiff's own use of this trade dress for their private label Mixed Blues, I do not believe a consumer would be confused because the names are so dissimilar.

I find that for there to be an infringement by the defendant of the Aerosoles trade dress as conveyed by the box or even the sock liner label, there must be a similarity in name, script, and presentation with an underscoring swoosh. Using the same principle, then, I find that the following sock label liners are also infringements of plaintiff's Aerosoles trademark: Sock lining labels exhibited on shoes 109 through 112, 114 to 116, 119 and 125.

It is critical to my finding here that all three elements be present: That there be the underlining, that there be the use of a similar script, and that there be the use of a name which is similar to the name Aerosoles. If any one of those is missing, I am not making a finding that there has been an infringement.

Using Exhibit 139 again, based on the rulings I have given, with respect to Exhibits 102 through 107 and including 107B I find no violation of the trade dress. 107 has a shoe bearing the name Isabella & Giovanni, entirely distinguishable from Aerosoles and presented in an entirely different way.

Exhibit 103 is the Thom McAn footwear. It has a sock liner label with a "TM" prominently displayed. It does not violate the trade dress of Aerosoles.

Exhibit 104 is the Carnival Shoe with an Air Supply sock liner label. This "Air Supply" word, though, is written in a way that has no similarity to the Aerosoles script, does not bear an underlining, and therefore the mere presence of the word "Air" provides an insufficient basis for me to find that this is an infringement of the trade dress.

Turning to 105, the Bianco shoe, again no similarity in trade dress warranting any injunction.

Featherlite too!, which is in Exhibit 107B, a box and in Exhibit 107, a sock liner label. While there is an underscoring

and similarity in script perhaps with the Aerosoles script, the word "Featherlite" is so different from the word "Aerosoles" and it is so clearly and prominently displayed that I find there is no likelihood of confusion. In addition, I point out again, as I have in an earlier passage in my opinion, this trade dress is even less similar to Aerosoles' trade dress than the Mixed Blues label which Aerosoles itself created and designed and manufactured for its private label customer. The Featherlite underlining is just one line compared to Mixed Blues, which copied identically the Aerosoles swoosh.

Turning now to Town Shoes, 108, which is the Town Shoes Air Supply box, and 109, which is the Town Shoes Air Supply shoe, and 110, which is another Town Shoes Air Supply shoe showing a sock liner label. These exhibits contain the trade dress which was developed by Marlboro for the August 1995 Las Vegas Shoe Show. When customers asked to sell their Aerosoles knock-offs in this trade dress, Marlboro agreed. With respect to customers in the United States, Marlboro required that the trade dress be placed in a green box. For the record, I find that the green is a particularly unattractive green and one that hasn't been used by the Aerogroup company, to my knowledge, to package its shoes. It is sort of a light drab olive green.

Marlboro is to be commended for being alert to the issue that it had created by designing this trade dress and making an effort to limit any improper infringement of Aerosoles' trade dress. But I find that simply the use of a different color scheme is insufficient to escape the infringing impact through the use of a brand name that bears some similarity to Aerosoles, a close copying of the Aerosoles script in its trademarked and highly-protected trade name, as well as an irregular kind of underlining underneath the word "Air Supply." Therefore, I find that with Exhibits 108 through 110

there is infringement of the Aerosoles trademark on each of those exhibits, and on Exhibit 108, which is the shoe box, there is also a violation of the trade dress.

I should note that the sock liner label at issue on Exhibits 109 and 110 bear a three-tiered swoosh which is remarkably similar, if not identical, to the plaintiff's trademarked swoosh.

Turning then to Exhibits 111 and 112, we have Air Supply sock liner labels and the white Air Supply trade dress, which is the knock-off of the Aerosoles trade dress and was sold in Canada, as I understand it. I am making a finding with respect to Canadian sales which included trade dress or trademark infringement with the following proviso. When I find infringement, I am finding it under U.S. law as if these sales had been made in America, since the parties have not briefed the issue of what law should apply and whether it is any different because the sales occurred in Canada. I will give the parties an opportunity after this hearing, if they wish, to brief that issue if they feel it would have any ramifications or cause any change in my ruling.

Therefore, with respect to Exhibit 111, I find that there was a violation of Aerosoles' trademark in the sock liner label.

With respect to Exhibit 112, I find there was a violation of the Aerosoles trademark with respect to the Air Supply trade name on the Town Shoes sock liner label.

With respect to 113, I find there was a violation of the Aerosoles trademark and the Aerosoles trade dress with respect to the presentation of the trade name Air Supply on the Bata Air Supply box.

With respect to 114, I find a violation of the Aerosoles trademark with respect to the Air Supply sock liner label on the Bata shoe.

With respect to 115, I find a violation of theAerosoles trademark with respect to the Air Supply sock liner label. Again, that is on a Bata shoe.

With respect to 116, I find a violation of the Aerosoles trademark with respect to the sock liner label on the Bata Air Supply shoe.

I have already indicated that I do not find any infringement in the use of the name Air Twist as presented on Exhibit 117.

With respect to Exhibit 119, I find a violationof the Aerosoles trademark with respect to the Air Supply sock liner label in the Weiss & Neuman shoe.

With respect to 120, I find a violation of the Aerosoles trademark and trade dress with respect to the Air Supply name and logo as presented on the green Air Supply box.

With respect to 124, which is the sock liner label in the Air Twist shoe, I find no violation of any trademark or trade dress rights.

With respect to 125, I find a violation of the Aerosoles trademark with respect to the presentation of the Airflex brand name on the sock liner label of the shoe. This is the only instance in which I find a violation that is unconnected to the Air Supply trade dress created in connection with the 1995 Las Vegas Shoe Show. In this situation the Airflex name is written in a script similar to the Aerosoles trade name. It is underscored by a three-line swoosh similar to the Aerosoles swoosh, and it is written on the same angle as the Aerosoles trade name. Therefore, I find a violation of the Aerosoles

trademark. I do not find a violation of the Aerosoles trade dress beyond the sock liner label violation of the trademark.

Finally, turning to Exhibit 126, the Airflex shoe, I do not find any violation of the plaintiff's intellectual property rights. "Airflex" is written and presented to the consumer in an entirely different way. I find no similarity and no likelihood of confusion.

All that remains for me to address, then, is the Gredico advertisement, which is Exhibit 95. First of all, I do not find that there is sufficient evidence to link these three defendants with the creation or presentation of Exhibit 95. As I noted before, there is no waffle sole shown, so although I was asked to make a ruling with respect to the waffle trademark, I do not need to with respect to Exhibit 95.

I do not find that the presentation here violates Aerosoles' trademark or trade dress rights. "Easy Step" is a name sufficiently different from "Aerosoles" and, in addition, though I need not reach this, written in a significantly different way that I do not find there would be a likelihood of confusion, weighing all of the Polaroid factors.

There was argument presented to me at the hearing, through the questioning of the witnesses, suggesting that this was an Aerosoles label that was being used on the sock liner of these shoes with simply the word "Easy Step" pasted over a portion of it. I have not made a final decision about that issue because I don't need to reach that. But I note that the Aerosoles swoosh is different from the portion of the swoosh shown through this ad. The bottom line of the Aerosole swoosh does not extend completely across, but is an incomplete and shorter bottom line than I believe is shown on the sock liner label. In any event, it is unnecessary for me to reach that issue given the lack of similarity.

C. Federal and New York State Dilution Law and New York Unfair Competition

My analysis under the antidilution statutes and New York unfair competition law does not lead me to any conclusions different from those reached through the trademark law analysis I have just given each of you. None of the items I have decided not to enjoin will dilute or tarnish Aerosoles trademarks or trade dress. Some of the factors to consider in a dilution analysis -- similarity of the marks, sophistication of the customers, intent, and renown of the marks -- are similar to the factors I have already discussed. Therefore, I find that the items I have not enjoined will not cause Aerogroup's trademarks and trade dress to lose their ability to serve as a unique identifier of Aerogroup's products.

In addition, unfair competition requires proof of likelihood of confusion. Because that analysis was largely determinative of my analysis under the Lanham Act, I find no reason to reach a different conclusion under New York common law.

United States Court of Appeals for Federal Circuit

97-1125, -1281, -1282

AEROGROUP INTERNATIONAL, INC.

Plaintiff-Appellant,

v.

MARLBORO FOOTWORKS, LTD., STEVEN GOLDBERG and LAURANCE D. KOPLAN,

Defendants/Cross-Appellants,

v.

BATA INDUSTRIES LIMITED,

Defendant,

and

NATIONAL INDEPENDENT RETAILERS, INC., GOLDPORT ENTERPRISES, INC., SHOE CARNIVAL, INC., MARLBORO FOOTWORKS, LTD. (TAIWAN), MASATERU UEHARA and MELVILLE CORPORATION,

Defendants,

and

GREDICO FOOTWEAR LIMITED, TOWN SHOES LIMITED, FREDERICK ATKINS, INC. and WEISS & NEUMAN SHOE CO.,

Defendants.

ORDER

United States Court of Appeals for the Federal Circuit

ORDER

A combined petition for rehearing and suggestion for rehearing in banc having been filed by the APPELLANT, and the petition for rehearing having been referred to the panel that heard the appeal, and thereafter the suggestion for rehearing in banc having been referred to the circuit judges who are in regular actice service,

UPON CONSIDERATION THEREOF, it is

ORDERED that the petition for rehearing be, and the same hereby is, DENIED and it is further

ORDERED that the suggestion for rehearing in banc be, and the same hereby is, DECLINED.

The mandate of the court will issue on May 27, 1998.

FOR THE COURT,
JAN HORBALY, CLERK

Dated: May 20, 1998

By S/Alex Van Veen
Alex Van Veen
Staff Law Clerk

cc: WILLIAM K. WELLS, JR.
CHARLES HOFFMANN

AEROGROUP INTL V MARLBORO FOOTWORKS, 97-1125, -1281, -1282 (DCT - 96-CV-2717)\

Note: Pursuant to Fed. Cir. R. 47.6, this order is not citable as precedent. It is a public record.